

# Public Utilities

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## Public Ownership by Strategy

The American people, in the opinion of the author, are being trapped into socialistic business projects on a nation-wide scale without their knowledge or consent.

By HERBERT COREY

**I**t is possible that we will have public ownership on a nation-wide scale before we know it. By that I mean the ownership of utilities, communications, the packing houses, oil, and coal. The list may be extended indefinitely.

This would be nothing to complain about if the American people accepted public ownership at the polls. The United States is a democracy. Americans have settled disputes by voting from the town meeting days on. Only after voting failed to bring an answer did Americans begin fighting. But it appears that in this matter of public ownership they will have no chance to vote. They are being trapped into it. As our English cousins would say, they are being led down the garden.

A trick is being worked on them. If they once get into public ownership—up to their necks—it may be difficult to get out.

This may seem absurd. It may seem ridiculous to argue that the great industries may be taken away from the men who own them and taken over by the government and yet the voters and owners will not be given the chance to say yes or no: Perhaps it is ridiculous. If the situation is understood by the American people it is a 10-ton truck to a Model T that they would say no. As a people we are governed by politicians but no one has ever suggested that we trust them. They do the work because the rest of us will not and we grumble at them. But if the situation is not understood by the

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people then anything may happen. It likely will happen.

**I** AM not suggesting here that the administration—whatever that word may mean—is deliberately trying to force privately owned industries into the grip of the state. I do not know. I am willing to go as far as any man in conceding the utter honesty and transparent goodness of all men in the present government. Not one exception is made. But I do believe that a set of circumstances is being put together which if accepted will make the public ownership of industry inevitable. Perhaps not all of the leading men in the administration realize this. Perhaps none of them do. Perhaps too many of them are so fanatically enthusiastic for the New Deal that they would do evil that good may come. It is possible that many of the things for which they are so impassioned do not belong in the New Deal at all. They are just swell ideas that have been cooked in a stuffy study over a reading lamp.

But it should be pointed out that neither of the two great political parties has ever carried in its platform a declaration for the public ownership of industry. Professional politicians know better. They know that the American is essentially an individualist. He is even a rugged individualist and is proud of it. He wants government to keep its nose out of his affairs except so far as it is necessary for it to know what he is doing in order that he shall not rob his neighbor; or that his neighbor shall not rob him. That may not be as rosily idealistic a view of American human nature as one would like. It is, however, an accu-

rate one. The United States has gotten ahead in the world for various reasons, but one of them is that each American with guts and a brain has lustily struck out for himself. He has fought against being licensed or managed or overly controlled by the state.

**P**ERHAPS he has changed. Perhaps he has been so thoroughly licked by five years of hard times and uncertainty that he will be willing hereafter to hide under the wings of a hen-like government. That is not the point at present issue. The point is that in this matter of public ownership he may not be given the chance to say whether he wishes to continue on his own, making money when his brain and energy discover and use an opportunity and losing money when the opportunity blows up. He may be cuddled under the government's feathers without knowing how he got there.

It is submitted that there is something radically wrong in that picture.

The mechanics of the radicals' plan are not hard to discover. They are based on the obvious fact that if a great industry is once taken over by the government it will be difficult to get it back into private ownership. Six eggs may go into an omelet but they can never come out as six eggs. If the ground is broken by the taking over of one industry others will almost certainly follow. A bureaucracy is built up which will increase like flies in summer. Each clerk has a father and mother and perhaps a wife, cousins, brothers and sisters, and a grocer who is still rugged enough to wish to be paid. Each little added bureaucracy makes the sum of all the bureaucracies the more nearly invincible. Pres-

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ently each American can boast that he is keeping a government clerk of his own.

THE utilities have been picked for the first attack. The reason why is evident enough. Some of them have been badly, selfishly, dishonestly mismanaged. Some of them have been honest and stupid. I have a friend in a certain state who bought a waffle iron from her home town electric plant. The waffle iron would not waffle. The dough fried out at the sides and burned on the bottom. She asked that she be given a perfect iron in its place. The fathead at the counter said it could not be done.

"Then repair it," she said.

"Nothing doing," said he, not looking up.

"I'll not pay for it," said she.

"We'll cut off your current if you don't."

That incident may seem insignificant. It was not. She had four votes in her family. The four rounded up other votes. If that town ever gets municipal ownership, and it may, it will be due in part to four indignant voters who had been treated with stupid arrogance by an eighteen dollar clerk who worked for a superior who had no gumption at all. On top of the well-justified complaints that have been made against some of the utilities a campaign of misunderstanding

and misrepresentation has been carried on with tremendous persistence. The campaigners rarely descend to particularities. They deal almost wholly in generalities and charges. They say:

"Public confidence in a great industry has been shaken because of the malign activities of the holding companies."

THEREFORE a bill has been introduced in Congress which if it becomes a law will abolish holding companies. I have no space here in which to argue the merits of the bill. It is a fact that holding companies are in use in every civilized country in the world. Modern industry could not be conducted without them; at least on its present plane of efficiency. If the holding companies are abolished a tremendous loss will be occasioned to the investors in them. It has been said that there will be no loss of real values if they are abolished. But if a dollar is invested in good faith in a sound business and that business is wiped out by law, then the dollar is gone. The dollar was real value.

If the holding companies were abolished other holding companies must at once be created to take their place. This is as much of a necessity as rain is to a farmer. They can do things the owners of the individual plant cannot do. In some of the larger cit-



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ies the individual plants are big enough, strong enough financially, to live without holding company aid. They can pay for brains in the management. They can borrow on advantageous terms. They can keep abreast of science and discovery. The little plants cannot. The traveler through the United States can say with almost absolute certainty whether the town in which he spends the night is served by an independent plant. This is not to say that all independent plants purvey not enough current and do not keep up the transmission lines. But the proportion of ineffective service is higher among them than among the subsidiaries of holding companies.

**I**F the privately owned holding companies are murdered, and the law has provided that there shall be no other privately owned holding companies, then publicly owned holding companies must take their places. If progress is to continue money must be found to make extensions and to replace machinery and to perfect methods. That is what the holding companies of today are doing. But it might be difficult for the government to step in at this point and say:

"Well—ha, ha—my friends, we made a mistake. Holding companies are necessary after all. Our experiment failed. So we will replace your holding company by our holding company—"

That might shake public confidence. But if a publicly owned holding company is already in existence, ready to step in and take over the privately owned company, less would be thought about the change. Here and there an investor might mourn the fact that

his life's savings had been taken away from him. But not much attention is being paid to the investor nowadays. He is a rugged individualist. He worked and saved.

**N**O one likes an ant as well as a butterfly. General Hugh Johnson, in fact, has made the ant the synonym for trouble. His masterly suggestion that his critics have ants in their pants will live in literature. The phrase of an earlier commentator on world events has apparently been forgotten.

"Go to the ant, thou sluggard," he said. "Consider his ways and be wise."

Publicly owned holding companies will be in existence and functioning if and when the privately owned holding companies are led to the chopping block. They are in law if not in material flesh in existence now. The Federal government has received appropriations running into the millions of dollars for the construction of dams and hydro projects, of which the Tennessee valley project is the most widely known. It can be demonstrated, it has been demonstrated, it will be demonstrated continuously in the future that these projects propose to furnish current that is not needed and cannot be used. The country can only use sixty to seventy per cent of the current available today. The current now being produced by privately owned plants could be increased to fill every possible need long before that need would be ready for it.

**N**O matter. The dams and dynamos are to be built and constructed by the government. But when they are ready to function it would be—even for a government—a



### Result of Government Ownership

**"N**o one seriously entertains the belief that government ownership would be successful from a financial point of view. Current produced by water power is more costly in almost every instance than steam-produced current. The cost of the hydraulic works, the interest charges, and the item of upkeep are all against water-produced power. Apart from that government is rarely successful as an operator of anything."



cockeyed procedure to duplicate existing transmission lines which are privately owned for the conveyance of current which is not needed. The obvious thing to do, from the standpoint of the reformer, is to seize the transmission lines now owned by the utility companies. The argument seems complete. It runs this way in summary:

First, do away with holding companies;

Second, prevent the otherwise inevitable complaints against poor service and office-holding stupidity which would result from the breaking up of interconnected systems into their component parts by;

Third, turning the individual items of the dispersed systems over to the publicly owned holding company, be it Tennessee valley or Boulder dam or Bonneville or what not, which;

Fourth, as the heir to a going concern may be able to function along the existing lines, and;

Fifth, public ownership has been brought about without any reference to the voter.

hope that Americans still have enough courage left to insist at least on the right to vote aye or nay on a plan of such magnitude, no matter how they may vote. But it does not seem far-fetched to some of the key members of the administration. It seems eminently sound and sensible to them. I am permitted to report a conversation which took place not long ago between the representative of a packing house and one of the Big Five of the AAA. They were not talking of the utilities or the holding company bill and its possible consequences but of the plan for putting through public ownership of industries. The packing house man said:

"If the amendments to the AAA law which you are asking are accepted it will be difficult for any packing house to continue in operation."

The Big Fiver grinned at him;

"It will be impossible," said he.

"Not impossible," said the packer.

"They will handicap us heavily. But we could pull through for a time at least."

"You could not pull through at all," said the man of the Big Five.

"Listen: If those amendments are put

**T**HIS may seem far-fetched. I trust that it is far-fetched. I

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through they will give us the authority to impose restrictions which you cannot meet. You could not continue to do business. *Then we would take you over.*"

**T**HAT may be nonsense on the part of the man of the Big Five. But he accurately presented the desires of certain men in the present political set-up. A bill for the public ownership of railroads has already been introduced in Congress. Coördinator Joseph B. Eastman does not favor it. He believes—as I understand him—that public ownership of railroads may come one of these days as the only way out of a bad mess, but he does not think the time has come as yet. The radicals do not want to wait for the day. They would light a candle back of the scenes and call it Dawn on the program.

Listening in at switchboards and running cotton looms and operating the mines should come next. L. C. Probert, vice president of the Chesapeake and Ohio Railroad, has observed that it is not possible to say how far the contagion of government ownership will spread once it is introduced. Whether it is efficient or ruinous is not a factor. Government-owned roads may be as cindery and slow and shaky as they were during the war when the government ran them. Passengers in those days bowed low before the Pullman porters and were properly put in their places by ticket agents. Every one was happy when the roads were finally pried out of the government's hands and returned to the men who knew how to run them. But that period of public ownership was temporary by plan and

was, as is well known, the creation of an emergency.

**"I**F the government were to go into the railroad business it would logically soon have to go into the business of supplying its needs also," said Mr. Probert. He laughs at the suggestion that the government would operate the roads more economically than their owners do. "Do you know of anything the government does economically? Did you ever hear of the government reducing the cost of anything it does? When the government handed the roads back to their owners after the war it had to lend them more than one billion dollars to repair the damages the roads had suffered. Yet during that period of government ownership all rates went up from 20 per cent to 30 per cent."

It will be urged that the abolition of the privately owned holding companies and their replacement by publicly owned companies does not necessarily mean that the privately owned individual plants will be taken over by the government. But this much is certain. The need for holding companies is certain. It has been abundantly demonstrated in every line of big industry. If the individual companies are thrust into the hands of the Federal holding companies they will become, to all intents and purposes, Federalized items. The power to impose rules and regulations is the power to dominate, of course. The stockholders might continue to be stockholders, but their dividends would be granted by mercy of the Federal holding companies.

**A**MERICANS are practical politicians. Those of us who do not practise politics have watched others practis-

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ing all of our lives. What kind of a political machine would that set up?

Again it may be argued that the Federal holding companies would be rebuked by law if they attempted to do anything of the kind. The reply may be made in the words of Senator Harry F. Byrd, Virginia's junior and Democratic Senator, who commented on the power of the Federal bureaus in a radio broadcast not long ago. He observed that the rulings of Federal bureaus, arbitrary and unlawful and unreasonable and unconstitutional as they may be, are apt to remain in effect merely because they have been put in effect. The courts find it difficult to interfere with the operations of the departments. An objectionable rule may so easily be changed and then changed back again.

No one seriously entertains the belief that government ownership would be successful from a financial point of view. Current produced by water power is more costly in almost every instance than steam-produced current. The cost of the hydraulic works, the interest charges, and the item of upkeep are all against water-produced power. Apart from that, government is rarely successful as an operator of anything. In his recently published "Government Experimentation in Business," Warren M. Persons states that there are few exceptions to the generalization that state and Federal

business undertakings have been business failures. Ventures that were planned to be self-supporting and self-liquidating have not been so in fact. Deficits have been made up by the taxpayer except in those cases in which states have repudiated their debts.

**I**N spite of the evidence of the past and of the fact that there is a huge surplus of available power in this country today—which power can be added to more rapidly than the need can arise—the government today plans to erect hydroelectric plants at points for the most part distant from potential customers.

To sell its current the government must either convey it for great distances or—

It must bring power users to its power, without regard to the distance from markets and the sources of raw material and to the certain injury of the communities which are thus bereft of their industries.

In defiance of these facts the government proposes to build five great dams. No one knows what the ultimate cost will be. No one in the government seems ever to look into the future. No one in the government has ever attempted to justify the building of the five on economic grounds. There is no demand for the current to be produced in the near neighborhood of any one of the dams, there



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can be no demand unless the raw materials and the markets which alone can make them a success are by some miracle of nature shifted to their vicinity and there is not the remotest prospect that any one of them will break the drab record of governmental failure in business cited by Dr. Persons. The reader might do well to look at the map and study the population and raw material and market statistics.

**T**HE five giant dams are: The Grand Coulee dam on the Columbia river; the Bonneville dam on the Columbia; the Fort Peck dam in Montana; the Arizona-Wyoming-Idaho project; and the Loup river project.

If they are completed the building will take years. No one has even hinted at the eventual cost. The government has shoved one blue chip forward as the ante in the strip poker game it is playing with the American taxpayer. The aggregate Federal expenditures contemplated come to \$232,812,000, but this is only the beginning. With the story of Muscle Shoals still clear in our memories, it is as certain as anything can be in life that the five giants will continue to tap the resources of the public. Muscle Shoals was called an "unused national asset," and for years an agitation was kept up in Congress to convert it into a going and profitable concern for the national benefit. When it was finally turned over to the newly created Tennessee Valley Authority, the TVA itself estimated its value as being in the neighborhood of \$20,000,000. The total cost of the salvaging operations, as guessed at by Dr. Arthur E. Morgan, will be close to

one billion dollars. The clear thinking which would spend a billion to save twenty million dollars needs no commendation here.

**B**UT the five giants are only the beginning. No politician will rest easy at night when he sees billions of good taxpayer money being spent in distant places. The country's good obviously demands that other projects be evolved for the spending of other billions by which his constituents and through his constituents himself shall profit. Already a neat list of projects have been offered for the approval of Congress. Mr. Rankin of Mississippi wishes the Tombigbee river and the Bear creek basins fixed up.

Senator Logan of Kentucky thinks it would be a grand idea to add the Cumberland river basin to the jurisdiction of the TVA. Ramsay of West Virginia would have the Monongahela and Kanawha river basins dredged and dammed and what-noted. Disney of Oklahoma suffers from a bleeding heart when he discovers that the Arkansas river is being neglected. Pope of Idaho wants to add \$50,000,000 to the cost of the Grand Coulee and Bonneville dams, whatever that cost may be, for transmission lines and laboratories and experimental plants. Shipstead of Minnesota would fix up the Upper Mississippi and the temperamental Missouri river will be put in leading strings by the bill fathered by Wearin of Iowa. Down on the Wabash is Greenwood of Indiana with a plan for spending \$60,000,000 for recreation areas, cabins, interstate transmission of power, the preservation of wild life, and other cultural trifles.

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BUCK of California has come in with a scheme to spend \$170,000,000 on the Sacramento and San Joaquin rivers. At "least five dams" are wanted on the Youghiogheny, and the North Platte would like a few dams and recreational areas and power plants. The Santee-Cooper and the Congaree and the James river and the Snake river and the Connecticut river and the Greenbrier and Cheat rivers all need a little money. Lemke of North Dakota tired of this nibbling at the cheese and would like to have a mid-continent reclamation commission named with the same powers granted the TVA, and \$100,000,000 to start on the job of "impounding, conserving, and making use of the unappropriated waters of the eastern slope of the Rocky Mountains." More projects may be on file by this time. The list grows tiresome to read.

It will be a great deal more tiresome to pay for.

Some of these plans will get the money, of course. Maybe all of them will. A bloc of Senators and Representatives from the states affected by this itch for easy money would be in a position to write their own tickets and no doubt they know it. Add to this—it is not a fact as yet but it is a certainty—the "Five Giants" as Secretary Ickes calls the five named above, and Boulder Dam and the Tennessee valley projects and the Rayburn-Wheeler bill in whatever form it may

reach the statute books and a combination has been created which will bring about the ownership of the utility industry by the government as surely as pigs is pigs.

THE only protection against this attack of delirium will come through the concerted action of those to whom it may bring ruin. The coal industry has noted bitterly that it will be destroyed if the plan goes through. The railroads will suffer. Cities and towns dependent on coal and the railroads will dry up. If the government reduces the cost of power to an impossible figure, for the sake of the political talking point involved, a shift of manufacturing industries from localities sufficiently prosperous at present may take place. This is doubtful, for, after all, industries are located with reference to raw materials and markets and not for the sake of an infinitesimal saving on power. But it is evident that a tremendous dislocation may take place.

And all this without the American voter having been given a chance to say a word about it.

It might not satisfy him in the end to be told laughingly that it is just another plan that failed. Not even Babe Ruth at the height of his glory batted 1,000 per cent all the time. The voter might remark that this was a lot of tripe. But what could he do about it?

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Q "THE first move in staging a recovery is to reestablish profits on a sane basis, it hardly matters what. Once you have done this, once the machine gets moving and is going of its own momentum again, then it is time to consider reform and introduce checks and new features."

—JOSIAH STAMP,  
British Economist.





## Unsound Valuation Ideas

Recent trend of judicial opinion declared to be the result of a misconception of the whole theory of reproduction cost as a measure of value.

By ED. C. CONNOR

**D**ESPITE the emphasis placed upon historical cost by the United States Supreme Court in its opinion in the Los Angeles Gas and Electric Case, there has been a tendency on the part of public utility commissions to adopt a method of valuation which purports to give effect to reproduction cost as the predominant factor in fixing present value for rate-making purposes.

At first glance this adoption of a theory of valuation, which utilities have so vigorously advocated, might be construed as an indication of a changed attitude on the part of these legislative bodies. Upon analysis, however, this impression is replaced by the conclusion that the adoption of this method is a manifestation of the fact that any method of valuation needed to justify rate reductions is the method which will be adopted, and then modified to any extent that

may be necessary to accomplish these results.

The recession of all basic costs which followed the general business collapse created a situation which may in part explain this attitude of regulatory authority towards a method of valuation which it had hitherto regarded with consistent hostility. As a result of this decline in price levels, the structural costs of the vast amount of physical property put into utility service during the decade preceding the year 1930 could be reproduced at costs substantially below historical cost.

**R**EPRODUCTION cost as the predominant measure of value—the hypothesis consistently advanced by utilities as the basis for rate increases during a period of steadily increasing costs—now became a weapon of offense ready-made for the use of public

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authority in its efforts to reduce rates during a period of rapidly decreasing costs, if direct structural costs alone were taken into consideration.

No unfavorable criticism of utility commissions can be justified by reason of their tardy acceptance of a method of valuation heretofore sponsored by utilities, provided this acceptance is based upon a rational consideration of all costs which would necessarily be incurred in reproduction, including the cost of business development. However, if the theory of reproduction cost is not consistently applied to the determination of structural costs, overhead costs, including the cost of assembling capital, and to costs which would necessarily be incurred in reproducing an existing business, the whole process becomes a mere hodge-podge of inconsistencies and becomes worthless as a measure of anything.

MUCH could be said of the manner in which commissions, for the purpose of reducing overhead allowances, have used the history of a property gradually built up during an extended operating experience in the same valuation in which they have used wholesale construction and spot prices for the purpose of reducing structural costs. This inconsistency is frequently encountered despite the fact that there can be no relation between the overhead costs of organization and construction incurred by a property in which piecemeal construction has been accomplished during a period of wholesale operation and similar costs which would be incurred incident to the wholesale reproduction of the same property at spot prices for

the labor and materials employed.

These attempts to avoid an application of the principles which should underlie the preparation of a true reproduction cost estimate are not as significant as are the theories which have been simultaneously advanced for the purpose of eliminating from these so-called reproduction cost estimates any consideration of the cost of reproducing an existing business with the consequent elimination of any allowance for going value.

WHILE these theories may differ in detail, in the final analysis they are usually bottomed upon the assumption that when a valuation has been made upon the estimated reproduction cost of physical property this estimate adequately provides for going value when there has been included in the estimate some allowance for preliminary and organization costs, administration, legal, and engineering costs during construction, interest and taxes during construction, and working capital.

There is nothing novel about any contention which has for its purpose the elimination of an allowance for going value in so far as the reasoning which supports such a contention reflects the attitude of public utility commissions. Going value has always been a thorn in the side of these regulatory agencies; and a study of the recorded cases reveals the fact that such concessions as have hitherto been made have been the result of a reluctant acquiescence to the weight of judicial opinion rather than an acceptance of the fact that any allowance has been justified in the case under consideration.

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FOR this reason the matter of real concern from the utility standpoint with reference to the recent trend of judicial opinion has been the tendency of courts either to abandon positions which they have hitherto maintained or to disregard any proof of the existence or the amount of going value by reason of a misconception of the whole theory of reproduction cost as a measure of value. Irrespective of the direction of this trend, the end results have been the same and if the tendencies indicated by these decisions become crystallized into the weight of legal authority, it will be necessary to change the tense description of an element of value heretofore recognized as inherent in most utilities. Going value will be gone in so far as it may hereafter be considered a factor in any value found for rate-making purposes.

On May 29, 1934, the supreme court of the state of Oklahoma rendered its decision in the case of *Carey v. Corporation Commission*.<sup>1</sup> The following quotation from the opinion exemplifies the fact that courts have accepted theories advanced by commissions which are contrary to the effect of their previous decisions:

<sup>1</sup> 5 P.U.R.(N.S.) 148, 33 P. (2d) 788.

It is generally recognized now that the reproduction cost new less depreciation, or book value, less depreciation, or historical cost, less depreciation, plus interest during construction, plus organization and legal expense, plus an allowance for material, supplies, working capital, and taxes, make a hypothetical company having an existence, and being more than a mere bare-bones organization, and that in the estimates and allowance so made, what is generally termed as "going concern value" is adequately covered.

WHILE it is impossible to ascertain from the context of the foregoing quotation just what the court had in mind as a basis for value, it is evident that irrespective of the method adopted and despite the statement that "going value is adequately covered," going value, as distinguished from the value of purely physical property, is definitely eliminated as a factor in the final determination. That this interpretation is correct can be demonstrated by an analysis of the language of the decision with reference to the statement that reproduction cost, plus the collateral costs enumerated, adequately provide for "what is generally termed going value."

Estimates of reproduction cost can be nothing more than indicia of present value. It is obvious that for reproduction cost to coincide with value at any given time certain definite con-



"If the factor of accrued depreciation is disregarded, the cost of reproduction and the present value of any utility property are coincident when two general conditions are fulfilled: First, the property must be well conceived, well designed, and capable of rendering a desirable public service to an existing market. Secondly, the rates which must be secured for service in order to yield a reasonable return upon reproduction cost must be less than the value of the service rendered."

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ditions must be fulfilled. It might cost a great deal to reproduce an outmoded structure or a structure badly located for the purpose for which it was originally designed, while the structures might be worthless. It is equally true that the historical cost of another structure, suitable in all respects for its current use, might be either more or less than its present value by reason of a variation in the cost of labor and materials between the date of its construction and the date of inquiry.

**I**F the factor of accrued depreciation is disregarded, the cost of reproduction and the present value of any utility property are coincident when two general conditions are fulfilled: First, the property must be well conceived, well designed, and capable of rendering a desirable public service to an existing market. Secondly, the rates which must be secured for service in order to yield a reasonable return upon reproduction cost must be less than the value of the service rendered.

If a property which fulfilled these stipulations should be destroyed at the date of inquiry, conditions would justify the reconstruction of an identical property for the purpose of rendering the particular public service which had been provided by the utility under consideration.

Under these conditions, the value of the physical property can be fairly measured by the cost of its reproduction at the date of inquiry, if proper consideration is given to each element of cost which would necessarily be incurred in reproduction. This estimate should include all costs which would

be incurred in the preliminary and organization phases of the enterprise together with the normal costs of assembling the money required for the project, direct structural costs, undistributed general charges including interest and taxes during construction, engineering and general supervision, and the necessary administrative and legal expenses.

**I**T is inconceivable how by any rational interpretation of the theory of the cost of reproduction as a measure of value it could be maintained that these basic costs could do more than provide the yardstick by which the value of the physical property might be determined. Each item of cost set out would be incurred either prior to or during construction. Each item of cost set out would be incurred in order to place the property in readiness to do business and, if properly determined, could be neither modified nor reduced by reason of the fact that the completed plant had not turned a wheel in operation.

If a comparison should be made between two utility properties identical in all physical respects, one a plant just completed and ready to operate, the other a plant which by reason of successful operation had acquired a business which utilized the capacity of its facilities, there could be no escape from the conclusion that the reproduction cost of the physical elements of the latter plant would coincide with the actual cost of the plant just completed but without a customer attached to its system.

**N**EITHER could there be any escape from the fact that other costs, unrelated to the costs incurred prior



### False Assumption As to Going Value Allowance

**"T**o maintain that going value has been provided for in a reproduction cost estimate of a property with an established business, when to direct structural costs there have been added certain overhead costs which would be incurred prior to or during construction, is tantamount to a disregard of going value in finding present value and to a disregard of the cost of reproducing a capital asset in finding reproduction cost."

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to or during the construction period, would necessarily be incurred by the former plant before it could attain the status of the plant which had its business completely developed at the date of inquiry.

**I**F the characteristics of the service were fully understood and if the characteristics of the community to be served had been fully analyzed, it would be possible to make a rational estimate of these costs. When determined, these costs would fairly represent the cost of reproducing the business of the plant in successful operation at the date of inquiry.

To maintain that going value has been provided for in a reproduction cost estimate of a property with an established business, when to direct structural costs there have been added certain overhead costs which would be incurred prior to or during construction, is tantamount to a disregard of going value in finding present value

and to a disregard of the cost of reproducing a capital asset in finding reproduction cost. An attempt to support this contention upon the grounds that all of the elements inherent in a property rendering efficient service would be reduced to junk if its business were not considered as attached at the date of inquiry, is tantamount to the assumption that there would be no public need for the service which the property was rendering.

**T**HE other trend of judicial opinion is found in the most recent expressions of the United States Supreme Court. In these opinions the existence of going value has been recognized in the abstract, but the effect of this recognition has been nullified in its concrete application by the refusal of the court to accept any method of proof which has been advanced for the purpose of fixing a specific allowance for this element of value.



## UNSOUND VALUATION IDEAS

Owing to the source from which it comes, the language of the United States Supreme Court in the recent case of *Columbus Gas & Fuel Co. v. Ohio Pub. Utilities Commission*<sup>3</sup> is of extreme importance with reference to the inclusion of an allowance for going value in future estimates made upon the basis of reproduction cost. Certain expressions from this opinion have been widely acclaimed as a definite inhibition against any attempt to estimate the amount of going value by means of an estimate of the cost of reproducing an existing business. The specific language of the court which forms the basis for this conclusion is as follows:

Thus, some of the appellant's experts have included interest or return unearned during the business development period as a factor contributing to going value, one witness placing this factor as high as \$6,300,000. Their method of computation was condemned by this court in *Galveston Electric Co. v. Galveston*, 258 U. S. 388, P.U.R. 1922D, 159, in very similar conditions.

**I**N the absence of definite information relative to the manner in which the company presented its evidence, it may be assumed from the context of the opinion that an estimate was made of the cost of reproducing the existing business over a hypothetical period of business development. It may be further assumed that taxes, depreciation, and return which would accrue during this period upon the reproduction cost of the proportionate part of the property in service, which would be inactive when measured by its current use, were used as the basis for the estimate. In any event the language of the opinion as quoted has been construed as a final condemna-

tion of the method of estimate above outlined.

As disclosed by the language of the decision, the condemnation of the method of computation used was based upon the fact that the United States Supreme Court in the *Galveston Electric Company Case* made a similar ruling "in very similar conditions." This phase of the discussion will attempt to demonstrate that there is a fundamental difference between the methods used in the *Galveston Case* and an estimate of the cost of reproducing an existing business which gives proper consideration to the capital costs which would necessarily be incurred during the normal period required to reproduce this business.

**I**N the *Galveston Case*, an attempt was made to estimate going value upon the basis of "what past deficiencies would aggregate if 4 per cent were allowed as a depreciation annuity and 8 per cent compound interest were charged annually on the value used. These calculations covered, on one basis, the period of thirty-nine years since the original horse-car line was built; on another, the period of fifteen years since the appellant had purchased the property." *Galveston Electric Company v. Galveston*, *supra*.

This estimate was an attempt to capitalize a series of historical deficits below what might be construed as fair allowances for return and depreciation over the entire operating experience of the company. These deficits may have been incurred by reason of inefficient management, the unsoundness of the enterprise, or the inadequacy of rates; and there seems to have been

<sup>3</sup> (1934) 292 U. S. 398, 4 P.U.R.(N.S.) 152.

## PUBLIC UTILITIES FORTNIGHTLY

no limit to the period over which they might have been accrued. In any event, they did not represent the cost of business development either from the standpoint of historical cost or cost of reproduction.

**A**N opinion of the United States Supreme Court is not needed to demonstrate the fact that a claim for going value or any other kind of value based upon such a contention is obviously absurd. If an indefinite cumulation of historical deficits contributed to the value of a property, then a business with the longest record of misfortune would be the most valuable in the end.

An estimate of the cost of reproducing an existing business, which is based upon its characteristics and upon the characteristics of the particular community served with reference to the normal rate at which customer saturation could be secured under the hypothesis of reproduction, has no relation to the method used in the Galveston Case and properly condemned by the United States Supreme Court. A proper estimate of the cost of reproducing an existing business is an estimate of the cost of securing a capital asset which is a property right of any company with a developed business. There is an obvious distinction between a capital cost of this character and an unlimited series of historical deficits.

**I**T costs money to purchase the material used in the construction of a plant. The capitalization of the cost of this material has no relation to an attempted capitalization of deficits which have been accrued by reason of improvident management, the unsoundness of the business, inadequate rates or other similar causes, for the reason that valuable property has come into the possession of the company as a result of the money spent for materials. Interest paid or unearned on money tied up in labor and materials during a construction period is a cost but its capitalization is not comparable to the attempted capitalization of deficits accrued by reason of an extended operating experience for the reason that interest during construction is an inevitable cost of creating a capital asset.

In order to reproduce the property and business of any utility consisting of a physical plant and a developed business, certain inevitable capital costs will be incurred. Some of these costs will be incurred prior to construction, some during the period of construction, and others after the physical property is complete. A reproduction cost estimate which does not include these inevitable costs, without regard to the sequence of their incurrence, will be incomplete and will fail to reflect the true reproduction cost of the property rights of the company.



**Q** "UTILITIES have injured their own cause either by slovenly presentations of their facts or by indiscriminate claims for going value where none in fact exists. The time has passed when mere formulae and generalities will be accepted as applicable to each and every situation."

## UNSOUND VALUATION IDEAS

MOST of the confusion which has arisen in connection with this problem has grown out of the failure of courts and commissions to accept a rational method of estimate of the inevitable capital costs which would be incurred in reproducing an existing business. The position taken by these judicial and legislative bodies has grown out of their failure to grasp the distinction between the proper capitalization of the costs which would be incurred in the acquisition of a valuable property right and the improper capitalization of a series of historical deficits. No court has suggested that the estimated cost of interest and taxes during construction is not a proper element in a reproduction cost estimate. In the reproduction of any property, what basic difference can exist between the cost of interest and taxes during construction, and the cost of interest, taxes, and depreciation on the proportionate part of the property under construction which would come into service during the construction period but which would by reason of the inherent characteristics of the business fail to be fully operative during a substantial period of time following the initiation of service?

IF interest and taxes during construction cease to be proper capital charges the instant that a property passes from construction into operation without regard to the extent of its use at that time compared to its ultimate use, then it is obvious that some substitute capital charges must be set up to cover the accrual of fixed charges on inactive property during the period of normal business develop-

ment in order to prevent substantial capital losses in properties subject to public regulation.

If a reproduction cost estimate of a developed business is based upon a proper consideration of the rate at which the plant in construction will pass from construction into operation, and upon a proper consideration of the rate at which the existing business can be attached under favorable conditions, then the fixed charges on the proportionate part of this plant which would be inactive or unused during the period of business acquisition provide the basis for a proper estimate of the cost of reproducing a developed business.

Utilities have injured their own cause either by slovenly presentations of their facts or by indiscriminate claims for going value where none in fact exists.

THE time has passed when mere formulæ and generalities will be accepted as applicable to each and every situation. It is also true that the existence of an established business cannot be construed as *prima facie* evidence of the existence of value above the cost of reproducing purely physical property. Numerous examples can be cited wherein the value of a public utility, including its established business, may be less than the structural costs which would be involved in its reproduction for the reason that no schedule of rates can be put into effect which will earn a reasonable return upon a greater value. Under these conditions, a slavish adherence to some concept or formula, which has for its purpose the establishment of values which are

## PUBLIC UTILITIES FORTNIGHTLY

nonexistent, is nothing less than pure stupidity, and contentions which have been based upon evidence of this character have had a decided tendency to discredit all claims for going value no matter how well founded by the facts in the particular case.

Those responsible for the preparation and presentation of evidence in utility rate cases should accept the fact that there is no inevitable coincidence between reproduction cost and present value for rate-making purposes.

**T**HERE are, however, innumerable cases in which this coincidence does exist. When this condition is fulfilled, the theory, as exemplified by the opinion of the supreme court of the state of Oklahoma in the Carey Case, is clearly fallacious, and the method of estimate inferentially condemned by the United States Supreme

Court in the Columbus Case is a simple, logical process entirely consistent with every accepted principle underlying the preparation of a reproduction cost estimate.

This conclusion may be amplified by the statement that, viewed from any angle, the opinions cited are basically unsound, for the reason that in neither instance is the practical elimination of going value based upon the only sound reason that can be advanced for its elimination—the fact that it does not exist. In one case it is based upon the erroneous assumption that it has been adequately provided for in allowances which can do nothing more than cover the costs of physical property; and in the other, it is based upon the erroneous assumption that an estimate of the cost of reproducing an existing business is identical with an indefinite accumulation of historical deficits.



### Odd Items about the Utility Services

Not since 1921 has there been an explosion involving high explosives on the rails of the carriers of the United States or Canada.

In several months of exhibitions, at many places throughout the country, the Zephyr, the streamline Diesel-motored train of the Burlington, was visited by 1,977,346 people.

Work upon the elimination of 534 railway-highway grade crossings and upon the installation of signals and improved signs at 811 other grade crossings is now being conducted in 32 states as a result of co-operative action of railway and highway authorities.

After two years' intensive study a committee of French engineers and economists has reported that the building of a railroad from Oran on the Mediterranean, across the Sahara, 1,800 miles, to existing rail connections to the South Atlantic on the south coast of West Africa is feasible and the construction would be comparatively inexpensive.

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# Remarkable Remarks

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*"There never was in the world two opinions alike."*

—MONTAIGNE

SAMUEL RAYBURN  
*U. S. Representative from Texas.*

"We cannot afford to throw transportation into politics."

*Washington (D. C.) Herald.*

"If we cannot regulate efficiently, we cannot operate efficiently."

GEORGE NORRIS  
*U. S. Senator from Nebraska.*

"No investor in power stock need worry if it is an honest stock."

JESSE H. JONES  
*Chairman of the RFC.*

"The only really dark cloud now in the skies is that of unemployment."

EUGENE TALMADGE  
*Governor of Georgia.*

"The people can't borrow prosperity, and they can't drink themselves sober."

ALFRED P. SLOAN, JR.  
*President, General Motors Corp.*

"We no longer need to promote recovery—but we do need to stop obstructing it."

FRANKLIN D. ROOSEVELT  
*President of the United States.*

"It is high time to deal with the Nation's transportation as a single uniform system."

J. ARTHUR ATCHLEY  
*Tennessee State Senator.*

"As for the TVA, we are all for it, Democrat, Republican, Socialist, mug-wump, or what not."

OWEN D. YOUNG  
*Chairman of the Board  
General Electric Co.*

"It is careful conservatism, not radical new departures, which will get now the activity we so sorely need."

SAMUEL DEXTER WARRINER  
*President, Lehigh Coal &  
Navigation Co.*

"... the electric power industry has gone ahead by leaps and bounds, and would not have done so without the holding companies."

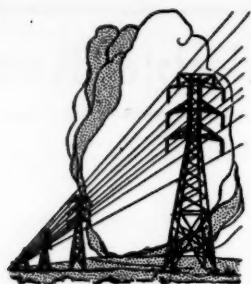
T. STEWART LYON  
*Chairman, Ontario Hydro-Electric  
Commission.*

"Ultimately power users in this Province will have rates so far below those across the line that we will certainly be able to make bids for industries that are large users of power."

MARION BOYD  
*Tennessee State Senator.*

"The Federal government is anxious to come into this state with \$100,000,000. Before they can do it, these planning bills are going to have to be adopted, these TVA bills are going to have to be adopted."





## The Mislaid Child of the Electric Utilities

THIS, in the opinion of the author, is the decentralization of industry, and the promotion of more favorable living conditions by the spread of electric service. The power companies, he says, have stood by and seen one of their own major contributions to the economic and social program of the nation neatly lifted from their hands and displayed as the creation of another school of thought. But he believes that the private companies still have a great opportunity before them if they wake up and take advantage of governmental advertising.

By RALPH B. COONEY

“CERTAIN economic factors are at work to cause a more even growth of population throughout the country than has obtained in the past. Among these are the pressure of population in urban areas, the more uniform distribution of prosperity throughout the country, and the decentralization of industry. The latter is being helped by the rapid spread of adequate electric service. The use of electricity in small towns and rural districts is making life there much more agreeable. The fact that many people in the large cities are dissatisfied with crowded living, crowded transportation, and intensely competitive working conditions will make them turn back to the smaller places when the advantages of the city are brought there by the modern improve-

ments in which electricity plays so great a part.”

Only two things give this quotation away—the reference to prosperity and the omission of any mention of the TVA. Change about five words and you have a perfect excerpt from one of President Roosevelt’s speeches or one of Dr. Arthur Morgan’s press releases.

No, this paragraph is not a New Deal utterance. Quite the contrary—it is one of half-a-dozen equally applicable selections lifted bodily from the Electric Power Survey of the Great Lakes Division of the old National Electric Light Association. And it is dated December 1, 1925. It was written five years before the depression, seven years before the election of Franklin D. Roosevelt, nine

## THE MISLAID CHILD OF THE ELECTRIC UTILITIES

years before the TVA arose as a nightmare to the utilities industry.

Written—and, apparently, forgotten!

**D**URING that lean autumn when Mr. Roosevelt was campaigning for the presidency he held out among other promises of his proposed "New Deal" the vision of a land better planned for better living. The moment he took office he set machinery in motion to make his interpretation of this vision a reality. And the redistribution of over-crowded urban populations became a major item in our national program.

In quick order, funds were appropriated and executive bodies created to conduct the experiments and to direct the campaigns which would provide the impetus required to awaken a nation to action. The Subsistence Homestead Division of the PWA came into being—and soon Reedsville and a score of similar communities made much-debated news throughout the country. The National Planning Board (later the National Resources Board) appeared and within a few months had planning bodies at work in all but a handful of the states. Slum clearance and housing projects agitated the cities as Federal financing was made available for such uses.

And, most spectacular of all, a great regional experiment in social and economic planning was undertaken in the area dominated by the government-owned dams on the Tennessee river.

Here were positive steps, dramatized by a great popular leader's enthusiasm into exciting new adventures in the readjustment of population and

industry to the requirements of sound national planning.

Decentralization made the headlines!

**M**EANWHILE, where were the men who in the mid-twenties were thoughtfully envisioning that which was coming to pass eight years later? Apparently, sound asleep!

And they didn't wake up until the TVA was beginning to function. Then, rushing through the streets in their figurative night-shirts—and still somewhat dazed by their long slumber—they raised the cry of the "Unfair Yardstick."

Now, it is quite possible that this may be a wholly unjustified picture of what went on in the minds of the utilities men.

I am not a utilities man—outside of a couple of meter readers and a bored cashier or two, I have had no contacts with those great industries. But I have been very keenly interested in the possibilities of decentralization for some ten years. I have read a rather wide variety of periodicals and newspapers with a special eye for information on the subject throughout that time, and, as an advertising man, I have been in a position to keep informed on current developments in the field of promotion and publicity activities. And I submit that if I, who had special reasons and better than average facilities for following the trend of events, found so little evidence of the utility companies interest in the way things were developing, it is fair to state that, so far as the public were concerned, the utilities were asleep while all this was going on!

## PUBLIC UTILITIES FORTNIGHTLY

**Y**ET a power-line map of the average state shows that the power net-works were there and functioning, taking electric current to towns and villages, and in many cases, farms as well, and providing everything necessary for the institution of the sort of decentralization program which under the administration's auspices suddenly struck the public as a new and hopeful step towards better things. Indeed, so far as actual construction went, the utilities had, as Wendell L. Willkie points out, continued extending their lines as an antidepression measure through the first two years of the hard times.

But despite all this, the power companies stood by and saw one of their own major contributions to the economic and social program of the nation neatly lifted from their hands and displayed as the creation of another school of thought.

Our great utility companies muffed a remarkable opportunity and their position in the eyes of public opinion now has, unconsciously perhaps but actually nevertheless, been weakened because this error was permitted to occur. The "yardstick" would not have cast so black a shadow nor would the holding companies have appeared so dangerous an evil had this opportunity been properly exploited by the private utilities.

**T**HE utilities had not yet learned what Henry Ford has known so well all these years—that evidence of social thinking provides the most effective basis for dramatic promotional publicity that a great business organization can secure.

Or perhaps they had not yet recognized that social thinking loses most of its value to a business if it *isn't made* the basis for effective promotional publicity.

Maybe they didn't appreciate the worth of either.

It is, of course, easy now to see how beautifully the thing was building up for the power companies. Look backward to the fall of 1932. Examine Roosevelt's campaign speeches. Look further back and check a few of the views he expressed on earlier occasions. The trend of his social thinking was apparent for years before his elevation to the presidency.

He brought to office a strong conviction that one of the crying needs of the United States was a kind of national planning which would make for a better distribution of the population in respect to the land. This philosophy was not born of the depression—the lean years merely convinced him of its soundness.

Naturally, the wide latitude given the Roosevelt administration by its first Congress and the general enthu-



**Q** "HAD utilities leaders but possessed the foresight to make either Mr. Roosevelt's election or his first decentralization messages to Congress the signal for an active and widespread reassertion of their position as pioneers in the program for decentralization and a better planned nation, they might not be finding it necessary to shout quite so loudly now."

## THE MISLAID CHILD OF THE ELECTRIC UTILITIES

siasm for a Federal spending program was speeded up tremendously the rate at which the Roosevelt theories have been applied. But the ideal of a more decentralized nation—the ideal indicated by the utilities men in their economic studies of the mid-twenties—would have stood as an administration policy, even though the crisis had been nonexistent or less acute.

**H**AD utilities leaders but possessed the foresight to make either Mr. Roosevelt's election or his first decentralization messages to Congress the signal for an active and widespread reassertion of their position as pioneers in the program for decentralization and a better planned nation, they might not be finding it necessary to shout quite so loudly now. And, even though the shouts had proved to be just as necessary, they would certainly have enjoyed a much stronger position in their appeal for public understanding and legislative sympathy.

As it is, decentralization exists only in the public mind as an administration-sponsored program. All the experiments—all the advertising, so to speak—carry the seal of the government of the United States.

Yet—and here is today's hope for the utility companies—everything that is being done rests upon the general availability of the commodity which, in spite of all the excitement, is still almost universally produced by the utility companies—electric power. The importance of electricity in industry and in the home, for work and for play, *is getting publicity such as it has never before enjoyed—publicity such as no single power company or group of companies could hope to receive.*

**T**o the thinking public, the TVA is more than a "yardstick." It is a great advertisement for decentralization, for regional planning, and for the proper utilization of super-power facilities. Affecting the people and the industries and the power companies of three states, it is awakening thought in the forty-five states where utility corporations have not as yet been actively challenged by government operation.

Yet, with but one exception, the utility companies have failed to see the value to them of these great waves of government-created advertising. They have seen only the one aspect of the program which has pinched; and they have spent all their energies in howling. By their attitude, they are only encouraging that which they most fear—a further extension of the great government-controlled river-basin power authorities.

Wouldn't it be more intelligent and wouldn't it show a better promotional sense for the power companies to jump into the national planning picture without further delay? Much has been lost, but more can be saved by the right kind of aggressiveness. Let the attacks on those phases of the government's activities which seem unfair continue if they must; but let something in the way of active, positive leadership be displayed as well.

**P**ROFESSOR O. M. W. Sprague, former adviser to the Bank of England and the United States Treasury Department, solemnly warned the Harvard Business School alumni at a recent meeting in New York that the justification of the capitalistic system rested in the leadership which capital



### The Utilities' Opportunity

**"T**HERE is no reason why the utilities should wait for the government to move its broad power development programs into their territories. They can act now! They can come forward as the active proponents of the government's own theories. They can be the leaders in their own states and regions in the development of sound community, county, state, and regional planning."

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exerted to keep society functioning. And he went on to say in no uncertain terms that unless American business came forth soon with a program, its prestige and power might easily slip into a dangerous decline.

**T**HERE is no reason why the utilities should wait for the government to move its broad power development programs into their territories. They can act now!

They can come forward as the active proponents of the government's own theories. They can be the leaders in their own states and regions in the development of sound community, county, state, and regional planning. They can assist in the formulation of intelligent zoning practices for the guidance of the various local governments in the territories which they serve.

They can popularize the researches of their engineers. They can coöperate in the development of model communities and experimental factory

systems. They can broaden the activities of their already-existing industrial departments. They can offer practical guidance to those industrialists who may be considering a breakdown of their present manufacturing procedure.

They can do all these things, and do them now.

**B**UT if they do undertake any of these steps, or all of them, there is one more thing which they must do. They must throw the full, white light of publicity upon their efforts. They must let their own immediate public know what they are doing. And they must let the great national public know what they are doing. Only through accepting full public responsibility for their actions can they secure full public recognition of their service to society.

A few paragraphs back, I observed that there was one exception to my statement that the power companies had failed to take advantage of the



## THE MISLAID CHILD OF THE ELECTRIC UTILITIES

advertising which the government was providing in behalf of widespread electrification.

That exception merits the attention of every utilities executive, for it offers proof of the thesis of this article.

Some weeks ago, I was skimming over the evening's radio programs as published in the newspaper, prior to giving the dials a casual twist, when my eye was caught by a listing—"Rural electrification—Arkansas Power and Light Company." This, it is well to remember, was in New York city.

When, at the appointed hour, the program came on the air, it turned out to be a remote-control broadcast from a tiny village (a village so small I had difficulty in locating it on a good map) in central Arkansas. For half an hour my living room was filled with the voices of farmers, young and old, housewives, power company executives, and, finally, that of the governor of the state.

HERE, on a national hook-up, was being celebrated the completion of two rural electrification projects affecting the lives of but a handful of people. It was interesting because it represented the fruition of a new technique in the establishment of such facilities, whereby the farm consumers were enabled to pay a portion of the costs in labor and agricultural produce. But as an achievement, it could hardly stand as an occasion for a nation-wide celebration.

Yet it was so treated—and wisely. The Arkansas Power and Light Company said both to its consumers and to the nation that it, as a privately owned utilities company, understood

what was going on in the United States and was taking its proper place as a leader in the planned development of the particular area which it served.

Something was done, and the world was told about it. And there is already evidence in the files to show that this display of social thinking, properly publicized, has not been without its effect.

The newspapers of January 25, 1935, carried a story of a conference between President Roosevelt and a group of utilities leaders, among whom was included Harvey C. Couch, president of the Arkansas Power and Light Company. This session, according to the despatches, covered various matters of interest to both the administration and the power companies, but included particular consideration of rural electrification projects and the more extended sale of low-priced appliances.

AND here is the way the bread cast upon the waters returned, as noted by the *New York Herald-Tribune*:

Special significance was attached to the presence of Mr. Couch . . . who recently announced a rural electrification plan in Arkansas, under which farm consumers might pay for having electricity carried to them in small instalments and in farm produce . . . as well as cash. Under the general administration policy, in so far as it has been developed, government coöperation would be offered to any private utility which is willing to take initiative of this sort, provided that the costs to the consumer are reasonable.

I do not subscribe to the theory that President Roosevelt spends all his waking hours thinking and all his sleeping time dreaming about ways to crush the power companies of the United States beneath the iron heel of public ownership.

But I do believe that he is moved

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by sincere faith in the need for a nation better planned to offer the good things of life to a greater share of its citizenry. And I do believe that he will not be content to permit the inertia hitherto displayed by the great power companies to stand in the way of what he feels is a progressive

program for development of service.

The power companies have a great opportunity at the present time. The government is providing all the ammunition they could possibly themselves desire. All they have to do is to take the trouble to fire it from their own guns.



### Municipal Electric Plants

IN the 1,861 communities, with a total population of 9,500,000, served by municipal electric plants there are 2,291,373 meters in service.

¶

OF the 1,861 communities served by municipal electric plants in the United States, 934 have generating plants and 927 purchase all electric energy used.

¶

OF the municipal electric plants serving 1,861 communities in the United States, 414 plants have steam engine or truck generators; 528 have oil or gas generators; and 148 plants use water power.

¶

OF the 1,861 communities served by municipal electric plants in the United States, 37 communities are supplied with street lighting and municipal service only. The population so served totals 6,571,219.

¶

IN 37 of the 1,861 communities served by municipal electric plants, the service is confined to street lighting and other municipal requirements. These 37 communities represent a population of 6,571,219. The population served by all the 1,861 municipal electric plants totals 9,500,000.

¶

THE 1,861 municipal electric plants in the United States have a total generating capacity of 1,882,645 kilowatts. Of this total 1,111,799 kilowatts represent the capacity of steam generating units; 279,443 kilowatts, the capacity of oil or gas units; and 490,583 kilowatts, the capacity of plants having hydro-generating units.

# Financial News and Comment

By OWEN ELY



## *Utility Securities Gain As Rayburn Bill Encounters Difficulties*

WHILE the recent price advances in utility securities may have been due partly to general market strength, it seems unquestionable that the NRA decision by the Supreme Court, the resulting doubts regarding constitutionality of portions of the Rayburn Bill, and the slow progress and revision which the bill has encountered in the House, have been the principal motivating factors in the recent sharp recovery.

Before the Supreme Court's decision, the Dow Jones average of industrial stocks stood at about 117, and after a sharp dip to below 110 immediately following the decision, it has recovered and advanced to about 120½ (June 22nd) for a net gain of only about 3 per cent. The utility average, which was at about 19 before the decision, rose sharply (contrary to the action of both industrials and rails) following the Supreme Court's decision and has since continued to advance to about 22½, a net gain of nearly 20 per cent. The gain from the March 14th low of about 14½ amounts to some 57 per cent, against a similar gain in industrials of less than 25 per cent.

This affords further refutation (if any is needed) of the administration's contention a few weeks ago that the threat of the Rayburn Bill was not responsible for the recent low levels of utility security prices.

The recent market action of typical

holding company preferred stocks is also of interest:

|                                  | 1935<br>Low | June 22<br>close |
|----------------------------------|-------------|------------------|
| American Water Works Pfd. . .    | 48          | 70-75            |
| Columbia Gas & Elec. 6% Pfd. .   | 36½         | 69               |
| North American Pfd. . . . .      | 35½         | 50               |
| Electric Power & Light 7% Pfd. . | 3           | 16½              |
| American Power & Light Pfd. .    | 10          | 24               |

## *Proposed Reorganization of Postal Telegraph System*

THE burden of maintaining a dual nation-wide telegraph system has proved particularly heavy during the depression and the Postal Telegraph system in the past four years has earned on the average only about a third of its fixed charges, last year showing some moderate improvement. While earnings might normally be expected to show fuller recovery over the next year or so, the future outlook is complicated by new forms of competition such as American Telephone's teletype, Radio's short-wave photo system, etc., as well as by the pending Federal investigation of the industry. The parent organization, International Telephone & Telegraph Corporation (which owns about a 78 per cent interest) decided not to carry any longer the burden of "underwriting" payments of fixed charges, and a petition under § 77B of the National Bankruptcy Act has been filed by Postal.

A variety of factors may, however, operate to delay definite reorganization. At different times in recent years Congress has considered the advisability of

## PUBLIC UTILITIES FORTNIGHTLY

permitting a merger of telegraph companies, and this was recommended by the new Federal Communications Commission early this year. Such merger would, of course, be very helpful in a reorganization plan.

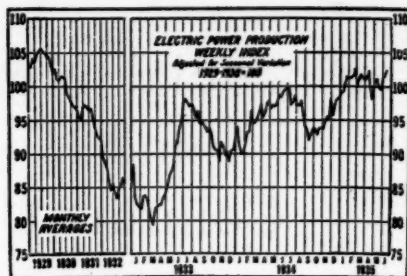
In any event, there will be no legal default until January 1st, when the period of grace on the July 1st defaulted interest payment will expire.

Postal owes about \$1,500,000 to International Telephone & Telegraph Company, and a subsidiary owes about \$1,000,000 to All-America Cables. Another affiliated company also owes \$2,660,000 to the banks. Since present bankruptcy proceedings involve only the parent Postal Company, only the \$1,500,000 debt to the International Telephone & Telegraph Corporation is of immediate importance; but it has been estimated that about \$4,000,000 would be required as new working capital if the company is to be reestablished on a sound competitive position. It seems probable, therefore, that reorganization will await a more definite outlook for the telegraph industry.

### Electric Power Index Near Year's High but Gains May Be Reduced

As will be noted from the accompanying chart of the *New York Times'* electric power index (reproduced from the *Times* of June 20th) electric power production (after seasonal adjustments) is again at practically the year's high point following a recent minor recession. Percentage comparisons for the last two weeks with the corresponding weeks of 1934 (Edison Electric Institute) are as follows:

|                         | Weeks Ended |        |
|-------------------------|-------------|--------|
|                         | June 15     | June 8 |
| New England .....       | + 3.2%      | + 6.8% |
| Middle Atlantic .....   | + 4.5       | + 3.8  |
| Central Industrial .... | + 0.4       | - 0.3  |
| West Central .....      | + 3.2       | - 1.2  |
| Southern .....          | + 6.0       | + 6.0  |
| Rocky Mountain .....    | +32.7       | +19.8  |
| Pacific Coast .....     | + 6.2       | + 9.0  |
| Entire United States    | + 4.6%      | + 4.2% |



From the *New York Times*

In comparing this electric power index with 1929 it should be noted that the correction for "normal year-to-year growth" somewhat detracts from the comparison.

The *New York Journal of Commerce* makes the following interesting comment in regard to the current trend of electric output:

Increases over the corresponding period in 1934 scored by electric power output should become smaller during the next few weeks, utility executives predict.

The gains made in the past two weeks have been somewhat deceptive. Intensive coal mining activity in the East in anticipation of a strike has been largely responsible for these increases. Impressive gains in the Rocky Mountain region, on the other hand, are in part due to operation of mines in that area which were closed on account of a strike at this time last year.

Soft coal production will be sharply curtailed during the next few weeks, it is expected, owing to the heavy stocks now in consumers' hands. A strike on July 1st, of course, would cause contraction in consumption of electricity to be still more sharp.

Moreover, the holiday shutdown in the cotton textile industry this year promises to be unusually extensive and protracted. This also would affect electricity consumption adversely.

According to a monthly compilation for the industry by the Edison Electric Institute, total revenues for April showed an increase of 4.1 per cent over last year. For the year ended April 30th the gain amounted to 3.9 per cent. Average annual consumption by domestic consumers showed a gain of about 6 per cent, while the average monthly bill increased only 2 per cent due to lower rates.

### *How Rayburn Bill May Affect Five Types of Utilities*

ACCORDING to an analysis of the House sub-committee report on the Rayburn Bill by the *Wall Street Journal*, the large utility companies may be roughly divided into five groups, depending on the degree to which each class would be affected by the proposed bill:

Group I, including such "pure" operating companies as Detroit Edison, Boston Electric Illuminating, Brooklyn Union Gas, Peoples Gas, Commonwealth Edison, etc., would be affected very little under Title I, but would be subject to the broad powers delegated to the Federal Power Commission under Title II.

The second group, including holding companies which are fairly well integrated (such as Public Service of New Jersey, Consolidated Gas of New York, Pacific Lighting, Pacific Gas & Electric, Consolidated Gas of Baltimore, Southern California Edison, Niagara Hudson Power, United Gas Corporation, American Water Works, and Columbia Gas) are expected to have comparatively little trouble with § 11 of Title II, which gives the commission some discretion in permitting holding company operation of one or several integrated groups. American & Foreign Power is also included in this group because under the bill American companies with properties abroad are largely exempt.

THE *Wall Street Journal* places in a third group companies "which will not have too involved problems to iron out with the Securities & Exchange Commission," including U. G. I., North American, American Gas & Electric, and Commonwealth & Southern. In the case of North American, "it would probably be faced with the problem of eliminating its intermediate North American Edison Co. after which it would have to obtain SEC approval for classification of certain of its subsidiaries as integrated units. It might have further difficulty with the SEC in

so far as its ownership of the North American Light & Power Co., a holding company with several subsidiaries operating in the Middle West, is concerned. Another point of controversy that may develop between North American and the SEC might involve the former's ownership of large blocks of Pacific Gas & Electric and Detroit Edison."

The fourth group would include holding companies somewhat more vulnerable such as Electric Bond & Share and its affiliates, Electric Power & Light and National Power & Light; Stone & Webster, Inc., controlling Engineers Public Service; Cities Service, International Hydro-electric, United Light & Power, Associated Gas, Standard Gas, etc.

In the fifth group are placed such investment companies as American Superpower, United Corporation, Niagara Share, Koppers Co., Central States Electric, United Founders, etc. These companies might be classed as holding companies in so far as they hold 10 per cent or more voting stock in any utility company, unless the commission specifically rules that they are not a holding company.

Under the draft of the House bill as it now stands, the SEC during the interim period of several years will have extensive life-and-death powers over holding companies whose permissive status is not clearly defined under the act; in later years, the SEC will share regulatory powers with the Federal Trade Commission and the Federal Power Commission.

### *RFC Control of British Utilities Opposed by M. P.*

THE Reconstruction Finance Corporation is now (in effect) selling gas and electricity to 503 British municipalities through its indirect control of Greater London & Counties Trust, Ltd. (subsidiary of Utilities Power & Light Corp.). Sections served include large areas near London (a substantial interest in the company serving the city



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itself is also owned) as well as communities in Wales and Scotland. The Utilities Power & Light system also serves a number of Canadian municipalities.

Control of this widely ramified system was taken over by the RFC this year from Harley Clarke of Chicago who had borrowed \$2,000,000 from General Dawes' bank, Central Republic Bank & Trust Co. of Chicago, some four years ago. Mr. Clarke's note was pledged along with other collateral as security for the celebrated \$90,000,000 loan which General Dawes obtained from the RFC in 1932. When Mr. Clarke was unable to pay his loan (secured by stocks of his holding companies), the RFC in March assumed control and named a majority of the directors of Public Utilities Securities Corp. (whose principal asset is 500,000 Class B voting shares of utilities Power & Light).

A recent London dispatch to the Philadelphia Record stated that Thomas Levy, Conservative M. P., objected to RFC control of the British Company and would call on Prime Minister Baldwin for legislation to free certain "statutory undertakings" from "the partial control of a foreign government."

Incidentally the Federal Trade Commission might be interested to note that the RFC, an agency of the Federal government, has obtained control of this \$400,000,000 system through an "investment" amounting to only about  $\frac{1}{2}$  of 1 per cent of the assets—a condition for which private holding companies are being roundly criticized.

The RFC has not yet assumed definite control of Utilities Power & Light Corp., but seems likely to vote its controlling stock interest at the annual meeting June 26th, unless litigation prevents.

### *Supreme Court Rejects "Commodity Dollar"*

POSSIBLE efforts to reduce utility rates sharply by arithmetically reducing property values in proportion to the depression drop in commodity prices have

received a set-back in the Supreme Court's decision in the Chesapeake & Potomac Telephone Co. of Baltimore Case. The court rejected the use of ordinary commodity price indexes as a formula to vary plant valuation and rates, as proposed by the Maryland Public Service Commission.

An obvious objection is that the indices which are its basis were not prepared as an aid to the appraisal of property. They were intended merely to indicate price trends.

It seems probable that, while the court may be prepared to recognize broad permanent changes in price as one factor in valuation, it does not wish to encourage any automatic and continuing readjustment of property value and rates based on variations in ordinary commodity price indexes. This would mean too abnormal a departure from usual valuation principles, which should give considerable weight to original investment costs if security holders are to be protected. While press reports of the decision do not seem entirely clear-cut, it is encouraging in that it may prevent any tendency to unduly exploit the depression decline in prices as an automatic gauge for rate cutting.

### *\$100,000,000 for Rural Electrification*

AN article in the *New York Times* by Morris L. Cooke, Rural Electrification Administrator, describes the new Federal program for which Congress has provided \$100,000,000. Rural electrification "involves the use of electricity for such purposes as lighting, pumping, refrigeration, cooking, water heating, sanitation, and the operation of motors for feed grinding, milking, and other purposes."

Only some 800,000 out of our 6,000,000 farms throughout the entire country have installed electric service, and of this number in the neighborhood of 650,000 are central-station customers, the balance having their own small plants.

## FINANCIAL NEWS AND COMMENT

While no very definite program is outlined in the article, the Administrator concludes that "it may be possible to achieve rural electrification on such a basis that the farmer will pay \$3 to \$3.50 a month for distribution line cost and enough current to give him light and water pumping. . . .

There are several agencies of the government which will come into play to help the farmer in his problem of financing his end of rural electrification. The Federal Housing Administration has authority to underwrite bank loans for the wiring of homes. The Reconstruction Finance Corporation, under its amended authority, can make loans for certain rural modernization activities. And there is the Electric Home and Farm Authority, whose charter is national in scope, although it now functions only in the Tennessee valley. . . .

Keeping in mind that this is a program based on self-help by the farmers, it appears there are four possible auspices under which the program can be carried out: (1) the private companies, (2) the state and its political subdivisions, (3) farmer cooperatives, and (4) the Federal government itself. The proportion in which each of these will be the medium through which the goal set by President Roosevelt will be achieved depends pretty much upon the cooperation and the willingness to help exhibited by each of the first three groups listed.

### *RFC to Hasten Rail Reorganizations?*

THERE has been a great deal of disappointment regarding failure of the revised bankruptcy laws to hasten railroad reorganizations. It is said that the new law gives too much power to stockholders' groups in dictating reorganization terms, and that these interests are naturally anxious to await a recovery in earnings in order to retain equities. But insurance companies, usually the largest bondholders, also seem dilatory in urging reconciliation of the various capital claims, and banking houses (whose part in some past reorganizations is now being investigated) have little incentive under present conditions to underwrite any plans which call for the raising of new capital.

The RFC announced June 3rd that unless reorganization plans were

hastened, it would file its own plans with the Interstate Commerce Commission for certain roads in financial difficulties, in which it has a financial interest. Notice of the new policy was sent to the Denver & Rio Grande Western, the Western Pacific, and the Chicago, Milwaukee, St. Paul and Pacific.

An outline plan for reorganization of the St. Paul was made public by Mr. Jones, the RFC agreeing to extend present loans ten years and lend \$12,000,000, for equipment, if the plan is consummated by the end of 1935. Fixed charges would be cut more than half to about \$7,000,000.

The road's troubles date from the construction of the expensive Puget Sound extension early in the century when optimism regarding the Northwest ran high. The 1928 "reorganization" cut about \$9,000,000 from fixed charges, making it payable only if earned, but total capitalization was increased nearly \$117,000,000, and a real overhauling of capital structure is needed.

THE company had already submitted a tentative plan to some of its large bondholders: the First and Refunding bonds (held by the RFC), the Milwaukee & Northern issues, and the Chicago, Terre Haute & Southeastern bonds to remain undisturbed; the \$138,000,000 general mortgage bonds to receive only two-thirds fixed interest, one third to be contingent on earnings but cumulative for ten years; the 50-year 5s and the Chicago, Milwaukee & Gary 5s, to receive income bonds; the adjustment bonds to be given preferred stock, and the present preferred common stock, while present common shares would be reduced one third. Mr. Jones' plan apparently does not differ materially except that it would scale down the old preferred one for four, and the common one for ten.

Mr. Jones has indicated that no further progress has been made with respect to the Missouri Pacific reorganization although the various interests are said to be not far apart.

## PUBLIC UTILITIES FORTNIGHTLY

Chicago & North Western recently took advantage of the grace period for deferment of interest on its convertible bonds, and is working out a plan to scale down its debts without formal reorganization. It is said that Mr. Jones wants interest charges reduced to between \$6,000,000 and \$8,000,000 annually, compared with some \$16,700,000 at present.

Bondholders of both the St. Paul and the North Western have already entered various objections to the proposed new plans, and it remains to be seen whether much real progress has been made as yet.

Meanwhile other systems which have been in receivership for several years appear to have been making relatively little progress toward reorganization—St. Louis-San Francisco, Chicago, Rock-Island & Pacific, Seaboard, and Wabash. The SEC has been investigating the \$400,000 trust fund created for the readjustment managers for the Frisco, appointed in 1932 in an effort to effect voluntary reorganization. The reorganization plan was abandoned in 1933 and a petition in bankruptcy under § 77 was later filed.

### *Municipal Rates Disappointing As Yardsticks*

**W**HEN Niagara Falls first was developed for power purposes, private generating companies encouraged municipal distribution plants, and there still remain 53 municipal plants in New York state, although only 6 of these are located in cities of more than 10,000 population.

But John E. Mack, counsel for the N. Y. State Legislative Committee investigating public utilities, recently admitted that municipal ownership in that state had proved of little service for yardstick purposes in rate making. He indicated his intention to seek an investigation as to why municipal rates are so high, and stated that in his opinion there

was some affiliation between privately owned and municipally owned utilities in this state. The Freeport and Rockville Centre plants on Long Island were said to be patterning their rates too closely on those of the Long Island Lighting Company.

It was also brought out in the investigation that all over the country during the depression municipally owned lighting companies' surpluses have in many cases been diverted to help support municipal budgets, thus confusing the rate question with the general problem of municipal finance. Jamestown, with the largest municipal plant in New York state and a surplus of over \$2,000,000, sought permission unsuccessfully from the legislature to divert its surplus to the municipality; a bill permitting the two Long Island plants to do likewise was passed by the legislature but vetoed, Governor Lehman suggesting that the surplus be used instead for rate reduction (which was done).

Despite his failure to definitely interest the Board of Estimate in his ambitious plan for a \$45,000,000 municipal "yardstick" plant in New York city (previously referred to in this Department) Mayor La Guardia is still pushing the project and has succeeded in gaining permission for public hearings on the plan. Mr. Joseph Proskauer, counsel to the Consolidated Gas system, has pointed out that the mayor's estimated potential 40 per cent cut in rates is based on the fact that the section used as a test area for the yardstick plant is the "cream" of the consuming territory in the city, the average load being twice as high as that for the entire city; he stated that if the Consolidated's business were confined to this area it could also reduce costs by 40 per cent. He pointed out that any reduction in the present swollen city budget would permit lowering the present huge tax bill of Consolidated (now almost one quarter of gross revenues) and thus aid rate reduction.

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# What Others Think

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## The Importance of Rural Electrification

Now that the electric power industry has, in the words of President Thomas M. McCarter of the Edison Electric Institute, fully realized that the kid-glove stage has passed in its battle with the Federal government, we may look forward with some certainty to some toe-to-toe slugging between the Federal government and the private electric industry of the United States. As a result there is considerable confusion as to just what will happen to the plans of the Federal government to spend a hundred million dollars of the public works relief funds for rural electrification.

Morris L. Cooke, newly appointed rural electrification administrator, has professed his desire for coöperation with private industry in carrying out the rural electrification program. But if the feud between the New Deal administration and the private power industry becomes more intense, Mr. Cooke's efforts along these lines will be made more difficult.

Behind all of the anti-New Deal speeches that were heard at the recent annual convention of the Edison Electric Institute at Atlantic City, there persisted an undertone of bewilderment among the power industry leaders as to just why their business has become such a red-hot political issue. They listened, for example, to the thought-provoking discussion reported by its rate research committee under the chairmanship of Frank A. Newton, calling their attention to the fact that during the last five depression years purchases of electricity for household use actually increased 31 per cent, while the average rate for such service during the same period decreased 16 per cent. The committee also reported that on the basis of careful

studies, between 60 and 70 per cent of residential electric customers are paying less than \$2 per month or less than 7 cents per day for service. The total amount paid for electricity by all domestic customers in the United States is less than the amount paid just for the privilege of buying gasoline, by reason of the fact that the total bill for household use of electricity is less than the combined state and Federal taxes on gasoline. A reduction of but 10 per cent in governmental expenditures would pay the average family electric bill and leave the family over \$15 besides.

FROM the other side comes some explanation for the New Deal's desire for greater electrification, especially in the rural areas. Writing in Editor Raymond Moley's weekly magazine *Today*, Morris L. Cooke points out that the electrification of rural America means more than so many waffle irons and other such gadgets. However important the substitution of the electric bulb for the kerosene lamp may be, such gains alone, says Mr. Cooke, "would hardly warrant a great national effort." What then is all the agitation about? Mr. Cooke tells us:

Cheap and plentiful electricity widely distributed among the farms of the nation is vastly important because of the contribution it can make, first, to the cultural rehabilitation of farming and, second, to national survival through aiding soil erosion control. Rural electrification must be undertaken as an urgent national necessity and as worthy of our utmost efforts. . . .

During the last three or four generations, we have allowed the conveniences and advantages enjoyed by the farm as compared with the city to fall tragically. Although the farmer is called the "backbone of the nation" his standard of living steadily declines. These untoward tendencies must be

## PUBLIC UTILITIES FORTNIGHTLY

arrested. Satisfactory bases for our agriculture must be reestablished. General electrification is a large part of the answer.

In other words, regardless of whether any one is to blame, the Federal administration apparently feels that sufficient progress has not been made in giving the American farmer the more abundant life that would result from electrification. Mr. Cooke points out that there are more than five million American farm families still using the kerosene lamp, still pumping water by hand, and otherwise living in a comparatively primitive manner, all because electricity is not available. To these five million farming families may be added two million other families living in rural areas not served by electricity. Until reasonably priced electric current is furnished them, a vast majority of these farmers will remain without the advantages of electricity.

**B**ACK in 1923, when Mr. Cooke was conducting the Giant Power Survey in Pennsylvania, there were only 120,000 farms electrified in the entire nation. Today he claims there are only 800,000 receiving electric service. Mr. Cooke gives the following bare statistics on the fifty-four million people depending for a living on agriculture in the United States:

- 80 per cent have to carry water from wells or other sources of supply;
- 75 per cent have to get along with outdoor toilets;
- 93 per cent have neither bathtub nor shower;
- 82 per cent have to get along with kerosene or gasoline lamps;
- 48 per cent heat their homes partially or entirely with fireplaces;
- 54 per cent heat their homes partially or entirely with stoves;
- 62 per cent have to do their laundry work outdoors.

Speaking of the rural electrification program authorized by the President under the public works relief act, Mr. Cooke feels that it is one project that can be made "to pay" when all its benefits are totaled. He feels that there are today at least one million farms which can afford service and are ready to con-

nect up, provided the service can be furnished at a reasonable cost.

Of course, there are obstacles in the way of this program. Mr. Cooke lists three: (1) legal obstacles; (2) opposition from privately owned electric utilities; (3) the failure of farmers to understand the potential value of electric service. Speaking of legal inhibitions, Mr. Cooke expressed surprise at the number of states which have no provision in their laws for the organization of power districts in rural areas by the taxpayers. The Public Works Administration in Washington has been attempting to stimulate such legislation but has made but mediocre progress during the current legislative season in which forty-four state legislatures convened and adjourned. Only a bare dozen states adopted any of the so-called "Ickes" bills designed to facilitate public electrification.

**M**R. Cooke was hopeful that private executives would see fit to cooperate with the government's electrification program to the extent of sacrificing profit-making motives to social motives. He is convinced that it will take time to demonstrate the practical value of electrification to many farmers who still regard it as a luxury which they can well do without in these hard times. But such demonstration can only come about when the prices for current and for rural equipment and appliances come down sufficiently to make it possible for the farmer to use electricity freely. The REA chief believes the time has come to drop into the waste basket ancient rural rate schedules and tabulations of "average farm consumption" on which they are based, because he thinks that we now know enough about actual production and distribution costs to be assured that low prices, which will insure quantity use, are feasible to reasonable-minded power companies. If power companies will not be reasonable, he feels that municipal and cooperative plants will be ready and able to carry on the burden.

Outlining the possibilities of rural



## WHAT OTHERS THINK

electrification, Mr. Cooke concludes that the service may be extended under any one of four auspices: (1) by private companies with or without financial aid from the government; (2) by public institutions, such as state rural electrification authorities, municipal plants, and power districts; (3) by local nonprofit farm companies or coöperatives purchasing wholesale current either from a private company or from a publicly operated plant. (Mr. Cooke is very much in favor of this line of development.) (4) Work undertaken under Federal auspices where not otherwise practicable.

**A**LL four of these methods will probably be employed and tested out in the Federal rural electrification work. If the proper coöperation is obtained from the private companies, from the local governmental authorities, from the farmers themselves, and from the appliance manufacturers, Mr. Cooke is certain that the program will be a success. He states:

You cannot convince me that a majority of farmers cannot afford electrification when service is made available to them at easily possible rates.

A statement of the policy of the privately operated utilities towards the rural electrification problem and an analysis of the possibilities and limitations of farm electrification was made at the third annual convention of the Edison Electric Institute at Atlantic City by Hudson W. Reed, management engineer of The United Gas Improvement Company of Philadelphia. After declaring that the privately owned industry is coöperating to the fullest extent with the Federal rural electrification administration, Mr. Reed pointed out that great confusion of thought exists as to the value of rural electrification, the costs involved, and its importance in opening up a future market for electric sales. To those interested only in reemployment, rural electrification means the indiscriminate building of new lines without regard to the use to which they can be put. To the professional friend of

the farmer, it is a political expedient by means of which he hopes to be remembered by his rural constituency. To those who have set out with the best of intentions to revolutionize living conditions in rural areas, it means the use of electricity for every conceivable purpose, preferably at a cost below that of other fuels, but with little regard for the economics of the problem.

**I**N consequence of the clamor for widespread rural electrification set up not by the farmer but by his professional champions, all manner of impractical and costly electrification schemes have been advanced, according to Mr. Reed.

He felt that in view of the low density of rural prospects and their limited buying power, the private electric industry has done a magnificent job in attaching three quarters of a million farms and over two million non-farm customers to its rural lines. Mr. Reed stated:

The extent of the progress made by the utilities in electrifying rural districts, is also misrepresented. In calculating this progress, non-farms in the rural areas must be included as well as farms. It has been customary for those who wish to belittle our accomplishment in this field, to state that rural electrification is less than 12 per cent completed. This is an understatement of fact, because it applies to farms only. Including non-farms, 25 per cent of our rural population are connected to central station service, and 31 per cent have the service available. Using the United States Census Bureau's definition of rural territories—that is, communities with less than 2,500 population—more than 35 per cent are now served, and 40 per cent have service available. There still remain more than a million non-farm and five million farms located in districts not reached by present central station rural lines. Only a small percentage of this number can be considered as potential customers, not because of any conspiracy on the part of the utilities, but because of low density and adverse economic conditions.

**M**R. Reed foresaw serious economic obstacles, such as the hard fact that farms of this country have a density of 2.06 per mile of road and, after eliminating farms now served, an average of 1.8 per mile. With the present low average farm income, the electrification

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of all farms, desirable as this may be from a social viewpoint, is clearly an economic impossibility, according to Mr. Reed. He added:

Forty per cent of all farms are tenant-operated. Even with the lowest reasonable cost of electric service and the most liberal financing in the part of the Federal government for wiring and the purchase of appliances, it will be extremely difficult to induce this group to invest its own money for electric service in temporary homes. A much greater demand for wired tenant farms must be created before this condition will materially improve.

Almost fifty per cent of all farms are mortgaged. With farm earnings far below normal, the saddling of an additional debt burden on this group—unless it increases their earning capacity, is impractical at the present time.

The average farm earnings in 1933 were \$400; for 1934 they were about \$500. The appliances to be purchased and the extent of their use must be governed by the amount of money available. If, through the use of electricity, farm productivity could be increased enough to offset the investment in the appliances, and their cost of operation, the picture would be different, but such farms are few in number.

In conclusion, Mr. Reed felt that the success of the Federal works program in the field of rural electrification would depend in a large measure upon the extent to which those in charge of its administration will be free from political interference. There are possibilities ranging from a carefully planned program to a wholesale indiscriminate building of lines before prospective customers have even signified their intention to use the service.

**F**ROM the National Popular Government League, under the direction of Judson King, well known to the readers of the FORTNIGHTLY, comes the opinion that the Federal government will make a serious mistake if it does not give publicly owned power plants the first opportunity of participating in the rural electrification program, as opposed to private power companies operating on a profit-making basis. The league's bulletin states:

Manifestly, again, public bodies have the first right to this Federal money, just as a municipality, a state, or power district,

has the first claim before the Federal Power Commission on a water-power site. If they do not exercise this right, then the site goes to a private company making application for it.

This advance of \$100,000,000 gives the existing municipally owned power plants the greatest opportunity which has ever come to them to extend electric service into the country and benefit both themselves and the farmers. It offers an inspiring opportunity to coöperatives either established or newly formed for that purpose.

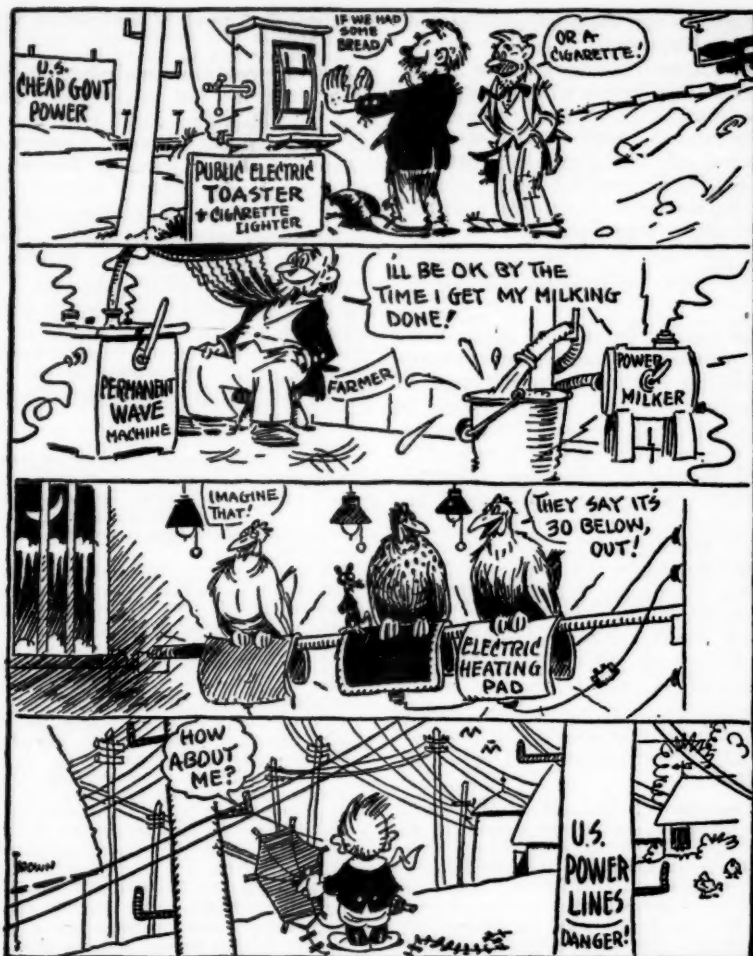
If the people and the public plants do not vigorously embrace this opportunity, then they will have no grounds for complaint if the private companies get the money and spend it. It is known that they are on hand in Washington now asking for it.

Now is the time for farmers to get accurate information on honest costs of electric installation and do some grim thinking on the best policy. There is no sense in spending millions of government money to build distribution lines unless the cost of current is to be the cheapest possible. Otherwise the farmers cannot continue the use of the service. On the other hand, the success of the President's effort depends absolutely upon the support it receives from farm communities not yet electrified, which, incidentally, constitute 88 per cent of the farms of the Nation.

Remember sharply that this rural electrification scheme is primarily an aid to self-help. It calls for the exercise of "rugged individualism" and the "pioneer spirit." The administration proposes to do what the private companies have not done in adequate fashion for the past twenty years because there was not enough money in it and what the bankers will not do today save on prohibitive security conditions and interest rates—namely, loan money to build the lines and furnish equipment.

**T**HERE are two main points that should be considered by the REA, according to the league bulletin, in planning its program: (1) What are the honest costs for line construction, appliances, and power service? (2) What is the best policy to be pursued where farm communities do not have the leadership to do the job for themselves? Under the first heading the league believes that in an ordinary farm community with at least three customers per mile of line, the minimum charge to cover line costs might lie between \$3 and \$3.50 per month. This amount should be used to cover interest, sinking-fund charges, and the use of aver-

## WHAT OTHERS THINK



Montana Record-Herald

### LIFE WILL BE EASY IN THE MISSISSIPPI VALLEY

age electric lighting and water pumping.

Additional energy should be purchased at progressively decreasing cost. The bulletin stated, "A fair rate for either a private company or a coöperative at the start would give a total monthly charge of \$5 for 100 kilowatt hours, \$7 for 200 kilowatt hours, \$8.50 for 300 kilowatt hours, and all over this amount at one cent per kilowatt

hour." It was observed, however, that at the present time one rate could not apply to the country at large, and that there might be reasonable variations in either direction, as a result of varying local conditions. The cost of wiring the farmer's house and barn, according to the league, would vary from about \$40 upward, depending upon the type of wire and fixtures chosen, the size of

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the premises and the number of outlets, and local labor rates.

The league bulletin gave a list of household appliances with the approximate first cost and approximate annual consumption of each. The cost of installation of plumbing and draining facilities made possible by electric water pumping was listed "from \$50 upward." The bulletin urged purchase of appliances on easy payments through the TVA Electric Home and Farm Authority.

**D**ISCUSSING the present policy to be pursued in financing rural electrification, the league pointed out that under public ownership the lines would be amortized, while under private ownership the private utility "investment" would require a continuing allowance on which "a fair return"—say 6 per cent—would have to be paid by the farmer as long as the company exists and the farmer buys current.

After comparing rural electrification experiences in Gage county, Neb., Pierce county, Wash., Alcorn county, Miss., Los Angeles county, Cal., and the rural vicinity of Seattle, Wash., the league cautioned its farm subscribers to stop, look, and listen before making contracts with any private company. The bulletin concluded:

Remember that as Colonel William T. Chantland, assistant chief counsel of the Federal Trade Commission, recently stated to the Senate Committee on Interstate Commerce, the investigation of the Trade Commission of power companies showed that for the past twenty years the private companies as a rule have ignored farm extension except where the farmers were made to pay construction costs and high rates. It was not until the President's program got under way that the companies discovered such warm interest in farmers. In the opinion of this writer, this interest is political more than economic.

The average farm home, the one with which the administration is concerned, must have not light and radio alone, but power for washing, ironing, pumping, and machines run by motor, if the program is to succeed.

The average farmer cannot afford to pay more than from 2 cents to 3 cents per kilowatt hour for the amount of current needed and if any agency, public or private, raises that price to from 5 to 10 cents it

defeats the purpose of the hundred million dollars.

**A**t least one municipal plant operator does not feel as optimistic about the possibilities of rural electrification as the National Popular Government League. He is John J. Fitzpatrick, manager of the publicly owned power plant of Holyoke, Mass. According to a newspaper column, signed by John T. Lambert, and published in the Hearst papers, Mr. Fitzpatrick had been asked by Morris L. Cooke, who is reported to be a personal friend, just what he, Fitzpatrick, thought of the rural electrification program. Following is the published text of Mr. Fitzpatrick's reply to Mr. Cooke:

My limited experience, covering twenty-two years as manager of a municipal plant and consulting engineer for several cities and towns, has taught me that rural electrification seldom pays a return on the investment.

I know of several rural installations where the return is insufficient to pay maintenance cost of the pole lines. That is why I have little or no sympathy with rural electrification.

Your letter states that you are asking the men with whom you have been associated in power matters the past twenty-five years to make suggestions as to how the Rural Electrification Administration can render the greatest public service.

I think that is the easiest question to answer that has been put up to me in the past twenty-two years. Undoubtedly you will disagree with my answer, but here it is.

You can render the greatest public service by turning the entire appropriation (reported to be \$100,000,000) back to the government with the advice that the expenditure of such a sum for such a purpose would be economically unwise and unsound.

You disagree. I expected you would. The TVA would probably disagree should I say that the cost of distributing electrical energy, to say nothing about the cost of generation and transmission, is more than the prices the TVA offers to sell electricity for in their published schedule of rates.

Everybody knows it but the government. But the government does not consider costs.

I presume those in charge of the "Quoddy" project in Maine approve of the expenditure of 30 or 40 million dollars to harness the tides, notwithstanding that the project has been pronounced economically unsound by government engineers who studied it.

Maine has more power now than can be

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sold and there is more undeveloped power in Maine than will ever be utilized. And what about the laws of Maine that prohibit the exportation of power? Are those laws to remain in effect?

I question whether those who are to be served by rural electrification can afford to pay rates that will yield a fair return upon the investment, plus operation and maintenance charges.

I know there is no market in Maine or the adjacent states for the amount of energy it is said will be generated by the "Quoddy" project. It might possibly be used for melting icebergs.

To be perfectly frank with you, Mr. Cooke, I think that most Federal, state, and municipal officials have gone "nuts" on electrical affairs.

Should you adopt my suggestion of turning back the money, your name would be placed alongside that of the "Immortal Lincoln," who said:

"The strongest bond of human sympathy, outside of the family relation, should be one uniting all working people, of all nations, and tongues, and kindreds.

"Nor should this lead us to a war upon property, or the owners of property. Property is the fruit of labor; property is desirable; it is a positive good in the world.

"That some should be rich, shows that others may become rich and, hence, is just encouragement to industry and enterprise. Let not him who is houseless pull down the house of another, but let him labor diligently and build one for himself, thus, by example, assuring that his own shall be safe from violence when built."

That quotation should be on the desk of every public official. If that be treason, make the most of it.

On the other hand there was much sentiment expressed at an REA conference held at the Lafayette Hotel at Washington, D. C., June 6th, for the promotion of rural electrification through coöperatives. Joseph C. Swidler, attorney for the Tennessee Valley Authority, gave the conference a glowing account of the possibilities of the Alcorn County Electric Power Association, which came into existence a little over a year ago and has handled distribution of TVA power throughout the county which bears its name. Although the association was too young to give much of a record of actual accomplishments, Mr. Swidler felt that the form set up by the rural and urban inhabitants of this county by which "members" participate in the advantages of electri-

fication proves suited to other sections of the country. Mr. Swidler virtually promised the coöperatives attending the conference that the Federal government will encourage rural electrification through that medium. He stated:

The advantages of the coöperative system in the distribution of electricity to the farmers are many, but its use has hitherto been very restricted. Under the inspiration of this administration's deep feeling for the farmer, and the great interest of the President and the Congress in securing the benefit of electricity to rural communities, I am sure this form of organization will come into much wider use. It is the farmer's only answer to the failure of public or private plants to bring the benefits of cheap electricity to him.

At the same Washington conference Dr. J. P. Warbasse, president of The Coöperative League of the United States, also discussed his belief that the coöperative method offers certain advantages in rural electrification. He recalled the successful experience of rural electric coöperatives in Sweden, Denmark, Czechoslovakia, and Switzerland, as well as in the United States. He pointed out that the farmers of this country have developed already some 3,000 successful coöperative farm supply distributing associations, and an equal number of similar associations for the distribution of petroleum products. There are also many coöperative associations for other services among the farmers, such as insurance, automobile supplies, medical service, etc. Farmers' coöperative supply associations in the United States number about 7,000, according to Dr. Warbasse, and have a business turnover of more than \$370,000,000 a year. In several fields they have extended to the point of manufacture. He believed that similar success was assured in the field of rural electrification.

The association announced the publication of a pamphlet on "The Organization and Administration of Coöperative Electric Supply Associations" for the purpose of instructing farmers and rural organizers in the technique of forming the coöperative associations—a tech-



## PUBLIC UTILITIES FORTNIGHTLY

nique which Mr. Warbasse claims has been well developed.

—F. X. W.

**REPORT OF RATE RESEARCH COMMITTEE.** By Frank A. Newton. Chairman. Presented before Third General Session of the Third Annual Convention of the Edison Electric Institute, Atlantic City, N. J., June 4, 1935.

**RURAL ELECTRIFICATION.** Address by Hudson W. Reed before the Fourth General Session of the Third Annual Convention of the Edison Electric Institute, Atlantic City, N. J., June 5, 1935.

**ELECTRIFY THE FARM.** By Morris L. Cooke. Today. June 8, 1935.

**WHO WILL GET THE \$100,000,000 FOR FARM**

**ELECTRIFICATION?** Bulletin No. 171. National Popular Government League, Takoma Park Station, Washington, D. C. April 25, 1935.

**RURAL ELECTRIC PROJECT UNSOUND, ASSERTS EXPERT.** By John T. Lambert. *The Washington Herald.* June 8, 1935.

**FORMATION AND PROBLEMS OF THE ALCORN COUNTY ELECTRIC POWER ASSOCIATION.** Address by Joseph C. Swidler before REA conference at Washington, D. C. June 6. R. E. 35382. Release No. 14.

**THE COÖPERATIVE DISTRIBUTION OF ELECTRICITY IN THE UNITED STATES.** Address by Dr. J. P. Warbasse before REA conference at Washington, D. C. June 6, 1935. R. E. 35380. Release No. 13.

## Checking Up on the TVA

I do not regard this pending legislation as very important; I have never regarded it as necessary but I did think it desirable. (*Congressional Record*, May 28, 1935, page 8638.)

**T**HUS spoke U. S. Senator Norris regarding the proposed amendments to the TVA Act, designed to get around the adverse decision of Federal Judge Grubb and expand the powers and pocketbook of the TVA. The U. S. Senate evidently took Senator Norris at his word because it voted approval of the following report on the amendments by its committee on Agriculture and Forestry (which did not even hold hearings on the matter):

We recommend the passage of the bill S. 2357. The bill amends the Tennessee Valley Authority Act of 1933. None of the amendments are of very great importance, but all are desirable in carrying out the intent and purposes of the act.

On the other side of the capitol, however, the TVA amendments assumed greater importance in the eyes of their proponents. Said Representative Maury Mauverick, Texas Democrat, after the House Military Affairs Committee had tabled the amendments by the close vote of 13 to 12:

This is just a little temporary throwing of \$100,000,000 in a crematorium. I hope it

can be reincarnated and I'm sure it will be. (*Evening Star*, May 25, 1935.)

However, the majority of the House Committee appeared to be taking Senator Norris at his word to the effect that the TVA amendments were not important and because of doubts injected into their minds concerning the regularity of some TVA activities, they withstood considerable pressure (some of which, it is said, came from the White House) to reconsider their tabling vote. They appeared to take the position that on such admittedly "unimportant" amendments there was no need rushing them through the House without hearings or much deliberation (as had been the case in the Senate) until the serious questions raised concerning TVA by Comptroller General McCarl could be answered satisfactorily.

**S**OME of the things in the McCarl report which TVA will have to explain are pointed out by the magazine *Time* as follows:

(1) TVA expenses were \$12,438,000, TVA receipts \$1,345,000; (2) the government turned over to TVA dams, electric and nitrate plants, and other property valued at \$133,000,000 which reappeared on TVA's books valued at only \$51,000,000, with no reason given; (3) TVA wrote off as depreciation 10 per cent of gross sales, or a

## WHAT OTHERS THINK

total of \$82,618 whereas Mr. McCarl figured that, even if TVA's low valuation on plant and equipment were accepted, at least \$1,000,000 a year ought to be charged for depreciation.

The questions raised by the Comptroller General's official audit takes on special significance in view of the fact, as *Time* points out, that the Comptroller General is the one man who has power to pry into all the books and accounts of every New Deal agency. His job is as nearly politics-proof as can be, for only Congress can remove the Comptroller General during his 15-year term, and he is not eligible for reappointment. (Appointed by President Harding, Mr. McCarl's term expires July 1, 1936.)

*Time* also emphasizes the fact that the McCarl audit was a notable show of independence, because "the soft-spoken Comptroller General with his flowing Windsor tie was once secretary, close friend, and political follower of TVA's best patron, Senator George William Norris of Nebraska."

**I**N commenting on the McCarl audit of the TVA, the *New York Herald Tribune* recalled the contentions made several months ago by Wendell L. Willkie, president of the Commonwealth and Southern Corporation, that the TVA "yardstick" was unreliable and that private companies, given the special advantages enjoyed by the government-financed projects, and putting their bookkeeping on the same basis, could make rates even lower than those of the TVA. "Those portions of the audit of TVA by the Comptroller's office that have been made public," says the *Tribune*, "would seem to indicate that Mr. Willkie had not overstated the case. In view of the 'write-down' of 62 per cent, as revealed by the McCarl report, the *Tribune* finds that 'the TVA rubber yardstick has to be stretched 2½ times to come anywhere near the truth.'" Summing up, the *Tribune* states:

In other words, the Tennessee Valley Authority has been able to give more favorable rates than private companies by resorting to such devices as carrying its plant at a fictitious low figure and then by making ridicu-

lously inadequate charges for depreciation. A private corporation that attempted jugglery of this sort would have to answer for it to its stockholders; and if it got by the stockholders it would have the blue-sky laws to deal with. But when the "stockholders" are only the taxpayers—well, that is a different story.

**S**ENATOR Norris, author of the TVA Act, took sharp issue with the official audit of the Comptroller General's office and especially Mr. McCarl's statement that the TVA, as an agency spending public funds, should be checked closely by the Comptroller's office.

The Nebraska Senator told newsmen he could not explain Mr. McCarl's critical attitude toward TVA, "unless it is another case of a man who got the presidential bee and was spoiled by it." Senator Norris also was quoted as saying that most of Mr. McCarl's objections were distinctly misleading and unfair to the TVA and indicate that Mr. McCarl wants to dominate the TVA completely and control it in every way. It is interesting to recall that several days previous to Senator Norris' remarks about the Comptroller General, Carlisle Barger made the following prophetic remarks in his daily observations in *The Washington (D. C.) Post*:

If pressed in the matter, the Democrats will undoubtedly contend that Comptroller General McCarl is against the New Deal. They will probably put out the word that he is a Republican presidential candidate, conveniently forgetting that for twelve years he harassed the Republicans just as he is now a thorn in the flesh of the New Dealers.

**B**UT to return to the report of the Comptroller General's office. Of exceptions taken by his auditors to TVA policies, Mr. McCarl asserted he had found "a uniform conviction that many exceptions might have been avoided if those acting for the authority had more carefully and whole-heartedly given effect to laws considered by this office applicable to authority transactions."

Mr. McCarl declared that "in the discharge of its duty the general accounting office had no friends to favor and no enemies to punish. In the matter of the financial transactions of officials of the

## PUBLIC UTILITIES FORTNIGHTLY

TVA and the audit thereof, the record should and must speak for itself."

In a lengthy reply Senator Norris wrote in part to Mr. McCarl:

By the amendment you are preparing, you will subject the Tennessee Valley Authority to the technical sections of statutes, taking away from them all discretion whatsoever. You will, in effect, defeat the entire object of the Tennessee Valley Act, and that is just what the enemies of the act want. That is just what the private power companies are trying to bring about.

On the one hand, they will secure all manner of injunctions from the courts. Then, if anything does seep through these injunctions, they will find you ready to receive them, and to provide through all sorts of technicalities for holding up everything they do for 90 to 100 days.

CONCERNING the criticisms by the Comptroller General's office of TVA accounting practices, Dr. Arthur E. Morgan, TVA chairman, is quoted as having said that the criticisms boiled down to a question as to whose judgment is to determine issues on the job—that of the engineers or that of the auditors.

A better answer than that will be necessary, in the opinion of *The New York Sun*, if the TVA yardstick is ever to be regarded with respect by that portion of the American public which is reasonably skilful in reading balance sheets.

Echoing the philosophy of those you would revamp the Constitution if necessary to meet the requirements of the New Deal experiments, Mr. Barger on of *The Washington (D. C.) Post* finds that as a result of the McCarl audit of the TVA, we are confronted with a choice of revising either our auditing system or the great experiment.

Mr. Barger on is quoted as follows:

Obviously we are up against something here. It is not likely we can throw our famous "yardstick" overboard. But we must do something to keep its face straight. Changing of the auditing system would seem to be the only way out. And in changing it we must get a flexible system that will fit the experiments we undertake.

WHETHER the House will take the Nebraska Senator at his word that the TVA legislation is "unimportant" and, in view of the various questions raised by the Comptroller General's appraisal of TVA bookkeeping methods, delay or refuse to grant more money and more power to the TVA, is at issue as this is written.

In any event, as some observers have pointed out, the TVA will certainly be a discredited basis for comparison between government and private electric service if the TVA engineers and the auditors for the Comptroller General cannot reach any agreement concerning the items that should enter into cost computations.

In such an experiment calling for the expenditure of millions of taxpayers' money and affecting many more millions of investments in the electric utility industry, it would seem that a strict accounting, such as rendered by the impartial Comptroller General's office, would be due those who, willingly or unwillingly, furnished the capital for such an experiment.

—E. S. B.

CONGRESSIONAL RECORD. May 28, 1935.

TIME. June 3, 1935.

NEW YORK HERALD TRIBUNE. May 23, 1935.

THE WASHINGTON (D. C.) POST. May 22, 1935.

"PRESIDENT ROOSEVELT frequently draws on his freshman law course for a homely illustration to clarify a complex issue. When he was discussing the Chicago water diversion controversy recently, he went back to English common law and dug up the principle which requires that a person who takes water out of a stream must put it back in fairness to others further downstream. Asked to define a public utility, he replied that he couldn't define the term now, but that the first institution known as a public utility was a ferry across the Thames."

—RAYMOND CLAPPER,  
*The Washington (D. C.) Post.*

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# The March of Events

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## Compromise on TVA Bill

A FOUR-WEEK deadlock over the administration's TVA legislation was broken when the House Military Affairs Committee by a vote of 13 to 12 reported a compromise bill designed to meet some of the objections of utilities interests.

Representative Schaeffer (D.) Illinois, made possible the reporting of the legislation when he switched from opposition to give the bill a one-vote margin of victory. The committee acted after the House earlier gave a vote of confidence to the far-flung development project.

Dr. Arthur Morgan, chairman of the TVA, stated that the House compromise bill was "unsatisfactory" and hinted at a presidential veto if finally passed in that form.

## FCC Limits Directorships

BY a vote of 5-2, the Federal Communications Commission recently refused permission to ten officers and directors of the American Telephone and Telegraph Company, the Western Union Telegraph Company, The Radio Corporation of America Communications, and subsidiaries, to serve on more than one company.

The decision becomes effective August 9th. It was freely predicted, according to the *Associated Press*, that the Federal Communications Commission's ruling probably would be appealed to the courts.

## Former NARUC Head Dies

CARL DeWitt Jackson, sixty-five, former president of the National Association of Railroad and Utilities Commissioners, died in Rio de Janeiro June 12th. At the time of his death, Mr. Jackson was special counsel for the Brazilian Traction, Light and Power Company in Rio de Janeiro.

## Extend Coördinator's Office

THE office of Coördinator of Transportation, held by Joseph B. Eastman, member of the Interstate Commerce Commission, has been extended by Congress for one year from June 12th.

## Ontario Seeks Bond Market

THE government's repudiation of its Quebec power contracts was declared by Premier Mitchell F. Hepburn to be the reason why no bids were received for Ontario's recent offer of a \$15,000,000 long-term bond issue.

Subsequently, the province offered a \$20,000,000 debenture issue over the counter. The issue also was offered for sale in the New York market by means of an advertisement in a New York publication. As the issue was not registered, bankers and legal experts were agreed the offer violates the Securities Act of 1933.

# Alabama

## Power Concern Drops Appeal

THE Alabama Power Company has withdrawn its appeal from a decision of Judge C. P. Almon in Colbert Circuit Court, denying a temporary injunction to restrain Sheffield and Tuscumbia from borrowing PWA funds to construct an electric distribution system.

The utility's action in withdrawing its appeal threw the action back into Colbert Circuit Court for hearing on an application for a permanent injunction.

Both cities were named in the preferred shareholders' suit in U. S. District Court in which the Alabama Power Company, the TVA, and fourteen municipalities were restrained from entering contracts for the sale of existing systems.

This case is now before the United States Circuit Court of Appeals. The Federal order also restrained the municipalities from entering a contract with the TVA for power, but under plans on the present contested loan, it was planned to purchase power in wholesale lots from the Alabama Power Company.

## PUBLIC UTILITIES FORTNIGHTLY

### Arizona

#### Approves Buchanan Project

PRESIDENT Roosevelt has approved allotment of \$20,000,000 for completion of Buchanan dam and construction of a unified system of smaller dams and reservoirs below Buchanan dam to afford flood control, irrigation, and power developments on the lower Colorado.

The allotment is divided in two parts: \$15,000,000 to PWA, and \$5,000,000 to the Bureau of Reclamation, Interior Department.

Although the \$20,000,000 comes out of the new work relief fund of \$4,000,000,000 (billions) the \$15,000,000 allotted to PWA will be spent under the old PWA rules, as a com-

mitment for it was made under the old PWA régime. In June, 1934, PWA allotted \$4,500,000 on the dam, which allotment was later rescinded.

Receipts from sale of water for irrigation and power will be used to repay the loan.

#### Nogales Plans Power Plant

THE establishment of a municipal power plant has been proposed by Nogales' new mayor, Andrew Bettwy.

The proposal is a part of a civic New Deal sponsored by the mayor, according to the *Phoenix Gazette*.

### Arkansas

#### Electric Rates Reduced

THE department of public utilities has approved a reduction in electric rates of the Arkansas General Utilities Company at Warren, and an objective rate plan which will permit a much greater use of electric current

at small additional cost has also been approved.

The company is the first in the state to file a schedule of proposed objective rates, following a recent order directing all electric power concerns to show cause why a "low cost" rate system should not be put into effect, it is reported.

### California

#### RFC Builds Power Line

CONSTRUCTION work on a 237-mile high-tension power transmission line from Boulder dam to various pumping plants along the line of the Los Angeles aqueduct, will be one of the first projects undertaken in consequence of the \$36,000,000 loan granted the district by the RFC, according to the *Associated Press*.

#### City Appeals Injunction

SAN FRANCISCO recently appealed to the U. S. Circuit Court from Federal Judge Louderback's temporary injunction preventing interference with operation of one-man cars by the Market Street Railway.

Permission to appeal was granted by Judge Louderback himself after he had turned down a petition for a writ of supersedeas that would

have immediately suspended his temporary injunction.

#### Utility Bond Veto Upheld

GOVERNOR Merriam's veto of the Nielsen bill, which would have permitted cities and counties to issue revenue bonds for construction or acquisition of public utility plants or distributing systems, was sustained by the assembly by a 46 to 32 vote recently. Fifty-four votes, to two-thirds majority, were required to override the veto.

#### Kill Public Ownership Bill

APPOINTMENT of a legislative committee to investigate during the next two years feasibility of centralizing public ownership of all utilities in California was refused recently by the assembly, 18 to 56.



## THE MARCH OF EVENTS

### Florida

#### Rejects Municipal Ownership

**T**HE Miami city commission unanimously voted to refuse to adopt a municipal ownership ordinance offered by the Municipal Ownership League, or to call an initiative election at which the public would be given

the opportunity to vote on the measure.

An opinion by the city's attorneys held that the proposed ordinance is in violation of the charter, that it cannot be amended by circulators of petitions without a new initiative being started, and that the commission cannot be mandamus'd into action.

### Georgia

#### Reduces Phone Rates

**C**HEAPER intrastate long-distance telephone rates of the Southern Bell Telephone and

Telegraph service in Georgia were to become effective July 1st, as a result of reductions ranging from 5 to 25 cents on calls recently ordered by the commission.

### Illinois

#### Passes Utility Tax Bill

**T**HE house recently passed Governor Horner's bill placing a 3 per cent sales tax upon gross receipts of public utilities. The vote was 84 to 49.

Already passed by the senate, the bill was returned to the upper house for concurrence in a house amendment.

The amendment exempts from tax the receipts from sale of gas and electricity used for power.

Another bill, passed by the senate and sponsored by Mayor Edward J. Kelly of Chicago, extending the Chicago city council's authority over local transportation companies, was also passed by the house, 86 to 45.

#### Probe Cradle Phone Charge

**V**ARIATIONS in the extra charges made for telephone sets of the cradle type in the different states have prompted efforts to have the Illinois Bell Telephone Company cited before the commerce commission to show cause why the charge should not be abolished altogether, according to the *Chicago Tribune*. The ruling of the commission now in effect permits the company to charge 25 cents per month for three years for each of the sets in use.

Prior to that ruling, which was entered on May 10, 1933, the company was allowed to continue the 25-cent monthly charge indefinitely.

### Kansas

#### Grants Utility Franchise

**T**HE Kansas Power and Light Company has been granted a 20-year extension of its electric franchise in Topeka by ordinance of the board of city commissioners.

The only change over the 30-year agreement which terminates this summer, is the

basis of payment to the city. Under the terms of the new franchise the power company will pay 1½ per cent of gross receipts from the sale of electric current and power in the city, amounting to approximately \$17,000 a year.

Under the old franchise, payments had fallen to about \$3,000 a year during the last few years, based on profits of the company.

### Kentucky

#### Electric Utility Cuts Rates

**A** VOLUNTARY rate reduction amounting to approximately \$86,000, made by the Kentucky Utilities Company on power sold to

coal mines in southeastern Kentucky, has been approved by the public service commission.

The utility also reduced its rates for power supplied to the city of Lancaster.

## PUBLIC UTILITIES FORTNIGHTLY

### Gas Company Lowers Rates

THE Central Kentucky Natural Gas Company reduced gas rates in Georgetown beginning with the June meter readings. The new rate will be 60 cents service charge and

58 cents per thousand for the first 5,000 cubic feet, a decrease of 10 cents per thousand from the present rate.

A reduction in gas rates for Cynthiana, effective July 1st, also has been announced by the Central Kentucky Gas Company.

## Louisiana

### Revokes Rate Cut Order

THE public service commission, with Commissioner G. H. Fields sharply dissenting, recently revoked orders it issued more than a year ago reducing gas rates in Farmerville, Ruston, Choudrant, Downsville, and Gibsland.

The commission conceded the orders, blocked by injunction and which before being canceled were being fought in Federal court,

were issued "without benefit of proper appraisers." They were directed against the People's Gas and Fuel Company.

The revocation followed a report by Mark Wolff, commission accountant, that the People's Gas and Fuel Company suffered a net loss of \$78,556.52 in 1934 and that there was "little or no chance of obtaining reduction of rates" and that "further proceedings might well result in an increase."

## Massachusetts

### Kills Surplus Power Bill

THE senate by a vote of 18 to 14 recently killed a bill which sought to permit the Elevated to sell its surplus power to the city of Boston, which now has a contract with the Edison Company to supply heat, light, and power to the city's public buildings.

panies have been and are under the supervision of the state. Backers of the measure, however, said need for such a bill was shown by recent Federal investigations, which uncovered abuses attending the holding company system.

### Signs Holding Utility Bill

GOVERNOR Curley has signed a bill directing the state department of public utilities to supervise activities of utility holding companies, ending a several sessions old battle.

Opponents have contended the law would be unnecessary since utility operating com-

### Prohibits Service Shut Off

A BILL recently passed by the senate prohibits gas and electric lighting companies from shutting off the supply to any home in which there is serious illness, even if the monthly bill is not paid. A local board of health or a registered physician must certify as to the seriousness of such illness in a home.

## Michigan

### PWA Aid Asked on Power Line

DETROIT's first application for a PWA project on the new 45-55 basis, under which the local community furnishes 55 per cent of the cost and the Federal government 45 per cent, will be an \$818,000 power line extension project, it was decided at a conference between city and PWA officials.

The project would make it possible for the public lighting commission to send its own power to two DSR substations and one lighting substation in the northwest part of the city which are now served by The Detroit Edison Company. In future years this change, it is estimated, would reduce the power costs of the city of Detroit by approximately \$175,000 a year.

## THE MARCH OF EVENTS

### Minnesota

#### Seek Public Power Plant

**T**HE first major objective of Minneapolis' new Farmer-Labor administration will be municipal ownership of light and power

plants, according to the *St. Paul Dispatch*.

Only slightly discussed in the campaign for city offices, the municipal ownership issue was trotted out by Farmer-Labor leaders as the prime goal of the new régime.

### Mississippi

#### TVA Gets New Customers

**E**LECTRIC users of Prentiss county recently became TVA customers. The Authority announced that the Prentiss County Electric Power Association, a cooperative organization, had taken over the distribution system which the TVA acquired there in 1934 from the Mississippi Power Company. Cooperative power systems, using TVA power, also operate in Alcorn and Pontotoc counties, Mississippi, acquiring their properties from the TVA.

#### Upholds Bonds for PWA Loan

**V**ALIDITY of revenue bonds issued for the purpose of obtaining PWA loan-grant funds was recently upheld by the state supreme court in an opinion affecting the town of Ripley.

The opinion, written by Judge W. H. Cook, affirmed the lower court's action in upholding the issuance of bonds for the purpose of purchasing a waterworks system from a private utility and operating it as a municipally owned plant.

### New Jersey

#### Bacharach Named Commissioner

**M**AYOR Harry Bacharach, of Atlantic City, has been reappointed a member of the board of public utility commissioners by Governor Hoffman.

The appointment is for a 6-year term. Bacharach, it is reported, will retire as mayor.

#### Utility Cuts Gas Rates

**G**AS customers of Public Service Electric & Gas Company will save approximately \$850,000 a year in gas bills under a revised schedule of rates agreed upon by the company and the public utilities commission.

The saving to users of residential service exceeding 5,000 cubic feet a month is placed at \$450,000 and to wholesale users at \$400,000 a year. The reduced rates affecting wholesale users will become effective July 1st and the rates for residential service October 1st.

The utilities commission previously had ordered, effective with bills rendered on and after June 1st, a reduction of \$5,177,000 in the electric rates of the company. The two cuts, electric and gas, total \$6,027,000.

The gas rate reductions agreed to are described as promotional rates designed to stimulate business rather than as reflecting undue profits earned by the gas division of Public Service. They are in the nature of an effort to recoup for decreasing revenues. Customers of the Rockland Electric Company will save \$30,047 annually by a new schedule of rates approved by the public utilities commission. This is the second reduction within a year.

#### Seeks Better Rate Regulation

**A** SIMPLIFIED, quicker, and more effective method of regulating rates is the aim of the public utilities commission. The commission recently announced that Leslie T. Fournier, assistant professor of economics at Princeton University, will study the subject in other states and submit recommendations for changes in New Jersey.

Fournier has been on the Princeton faculty ten years, specializing in transportation, public utilities and government, and business. He recently completed a study of the Canadian railway situation, under auspices of the international finance section of the university's department of economics.

## PUBLIC UTILITIES FORTNIGHTLY

### New York

#### Attacks Municipal Plants

MUNICIPALLY owned electric light plants in New York state have not been an unqualified success in reducing rates for the consumers, according to John E. Mack, counsel to the legislative committee investigating public utilities.

Mr. Mack said the committee, of which State Senator John J. Dunnigan is chairman, intends to make an investigation for the pur-

pose of determining why the rates of the municipally owned plants are as high as they are.

Asked if he believed there was any possibility that politicians charged with running the municipal plants might be tied up with private utilities in the same area, Mr. Mack said:

"In my opinion there is some affiliation between privately owned utilities and the municipally owned utilities."

### North Dakota

#### Seek City-owned Plant Data

THE cost and feasibility of a municipally owned electric light, power, and steam heat plant in Bismarck will be investigated by the board of city commissioners, according to *The Bismarck Tribune*.

Action was taken in connection with an

effort to get the North Dakota Light and Power Company, now furnishing these services, to reduce their rates. Members of the commission intimated that the threat of a municipally owned plant was intended to be used as a club in the rate fight, although Mayor A. P. Lenhart commented there was "no telling" how far the city might go.

### Oklahoma

#### State Power Plan Upheld

AN act of the legislature creating the Grand river dam authority was held valid recently by Mac Q. Williamson, attorney general, in an opinion to Governor E. W. Marland.

The state has the authority to engage in the business of electric power production, the opinion held. It also upheld the right of the legislature to create a corporation such as the Grand river dam authority to act as an arm of the state for development of any public purposes.

### Pennsylvania

#### Offers Lower Water Rates

REDUCTION in rates by the South Pittsburgh Water Company amounting to \$95,000 a year, which is approximately 6½ per cent of the company's annual income, has been offered by the water company, according to a recent announcement by the public service commission.

The company serves the South Hills wards of Pittsburgh under a special agreement, and in addition a number of boroughs and townships.

The reduction, if accepted, will be the third made by the company in the last three years. Two other reductions in 1932 totaled \$110,000 annually.

#### City Utility Bill Defeated

THE Moran bill that would have given municipalities the right to go into the electric light and power business was defeated by the house in the closing days of the legislative session.

## THE MARCH OF EVENTS

### South Carolina

#### Agree on Utility Rate Cut

A \$24,300 annual reduction in rates for power of the Broad River Power Company has been agreed upon after a series of conferences of public service commission rep-

resentatives and representatives of the power company.

New rates will affect commercial and small power consumers and will be applied after July 1st, according to the public service commission.

### Texas

#### Gas Users May Get Refunds

THE railroad commission has estimated approximately 9,694 gas consumers in Waco would receive a refund of \$55,000 if an order reducing rates was upheld.

Reductions ordered in Texas Cities Gas Company rates at Waco effective July 15th averaged about 8 cents per thousand cubic feet for domestic service.

If upheld in a prospective court attack, the order would require the company to refund to customers the difference between the new rate and that charged since July 1, 1934. A surety bond of \$25,000 was posted to assure payment.

The Waco rate controversy arose after the city refused to approve a schedule proposed by the company to boost charges and adopted an ordinance calling for reductions. The commission set the rate at 59 cents per thousand cubic feet plus a 50 cents' monthly meter service charge.

#### Plans Gas Line to Detroit

NOTWITHSTANDING refusal of the recent legislative session to pass enabling legislation, the state will move rapidly ahead with its plans for piping natural gas from the Texas Panhandle to Detroit, according to Robert A. Anderson, head of the Texas gas delegation, which recently conferred with officials of Detroit city and the Detroit City Gas Company.

#### Suits to Enjoin PWA

THE Gulf States Utilities Company has filed suit in Federal District Court against the city of Liberty, Secretary of the Interior Ickes, and others, alleging the National Industrial Recovery Act to be unconstitutional and seeking an injunction to prevent Liberty from constructing a municipal electric plant.

The Texas Utilities Company likewise has filed suit in United States District Court against the city of Plainview to restrain building of a municipal power and light system with funds procured from the public works administration.

The suit attacks the validity of the National Industrial Recovery Act and especially the aid governmental agencies have given and are giving municipalities to compete against private building.

Named in the action was Harold Ickes, Federal administrator of the recovery fund, and Plainview city officials. The city of Plainview is named defendant in a suit filed recently by the Texas Utilities Company of Lubbock in Federal court, in which the company seeks to restrain the defendant from building a municipal power and light system with funds obtained from the Public Works Administration.

The suit attacks the validity of the National Industrial Recovery Act and the aid governmental agencies are extending to municipalities, placing same in direct competition with private business.

### Utah

#### Sets Phone Hearing Date

UTAH's fight for lower telephone rates will open at the state capitol August 1st, according to the public service commission.

At this time the state will resume its hearing

on the complaint initiated by the former public utilities commission on its own motion containing 23 allegations of unfair, unjust, and unreasonable rates maintained by the Mountain States Telephone and Telegraph Company in Utah.



## PUBLIC UTILITIES FORTNIGHTLY

### Virginia

#### City Rate Parleys

**T**HE Waynesboro city council recently dampened talk of a municipal plant by voting to prepare to renew its contracts with the Virginia Public Service Company, on an annual rental basis.

The present 5-year contracts for power to operate the pumping works and current to light the White Way and residential areas, will expire on the first of September, it is reported.

The first 5-year contract between Alexandria and the Virginia Public Service Company must be renewed before July 1st, and Mayor E. C. Davison and several members of the city council have said that unless the utility offered a substantial reduction in street lighting rates they would consider the feasibility

of building a plant to serve the public as well as the city.

#### Seek Lower Utility Rates

**C**HEAPER power, water, and telephones is the slogan with which the new council swept into office at Luray in a recent election.

The prime problem before the town for several years has been whether or not the town shall renew the franchise for thirty years of the Page Power Company or build a municipal plant. The council, elected two years ago and swept in on a reform ticket, promised cheaper power.

During the past year negotiations have been in order and an investigation was made by the corporation commission.

### Washington

#### Power Rates Revised

**A** NEW power rate schedule for the Ione Water & Light Company, serving the town of Ione and vicinity, Pend Oreille county, has been approved by the state department of public works. An original order was reversed on the ground the amount allowed for wholesale power purchased from the Panhandle Lumber Company was inadequate.

The new rates, compared with those fixed in the original order, represent increases, it is said.

#### New Name for Regulators

**T**HE name of the state department of public works, as recently changed by the 1935 legislature, became the department of public service on June 13th.

Department officials sponsored the change in name because of confusion with the Federal Public Works Administration, which performs an entirely different type of work. "Public service" is the name more commonly used in other states for departments or commissions regulating public utilities or trucks.

### West Virginia

#### Fails to Halt Tax Collection

**A**N injunction to restrain the city of Huntington from collecting a tax of one per cent on the gross revenue of the Huntington Water Corporation has been refused by the state supreme court. The city proceeded un-

der an ordinance passed last autumn requiring the company and other utilities excepting steam railways, using the city streets, to pay the tax.

Counsel for the company claimed the city council lacked authority to levy the tax and that the ordinance was unconstitutional.

### Wisconsin

#### Orders Electric Rate Slash

**E**LECTRIC rate reductions of \$550,000 annually for customers of the Milwaukee Electric Company and the Wisconsin Gas and Electric Company have been ordered by

the public service commission, it is reported.

The companies were also ordered to continue their free electricity plans to October or November readings, but were ordered to discontinue immediately free lamp renewals.

Controlled by North American, the com-

## THE MARCH OF EVENTS

panies operate in southeastern Wisconsin. Compliance with the commission's order to continue their free electricity plan will exempt them from the commission's general low cost electric rate plan scheduled to become effective July 1st, the commission said.

The rate reduction will be offset by discontinuance of lamp renewals which the commission estimated would cost about \$245,000 during the next twelve months at present prices.

However, discrimination between customers, all of whom share equally the expense of lamp renewals, will be eliminated, the commission said.

The rate reductions are not final and will not halt investigations of both utilities which the commission is conducting.

### Probe Municipal Plant Rates

**R**ATE investigations of the Monticello and Waunakee village electric plants have been ordered by the public service commission.

The Monticello investigation is based upon apparently excessive earnings indicated by the utility's annual reports to the commission. The commission allows and limits municipal utilities as well as privately owned utilities to a 6 per cent return on fair value of the property.

At Waunakee the water and electric commission, pleased with the increased consumption of electricity resulting from a commission rate reduction nearly two years ago, requested the commission to make another reduction.

Revenues have returned to their previous level despite lower rates, the village officials told the commission, as predicted by the commission when it made the reduction.

### Telephone Rates Reduced

**M**ADISON suburban residents will be saved 19 cents to \$2.25 a month in telephone charges as the result of a recent order by the public service commission.

The order, effective on the first billing periods after June 1st, temporarily reduced mileage charges by an estimated total of \$8,000 annually for suburban subscribers of the Wisconsin Telephone Co. in the Madison and Milwaukee areas. Reasonableness of the company's mileage rates was left for final determination after a statewide investigation.

The commission, in discussing the mileage rate plan, explained that in the small exchanges of the Wisconsin Telephone Company base rate areas are in many cases an imaginary circle of certain radius from the central office. The practice in the larger exchanges is to provide definite boundary lines such as streets, railroads, rivers, and other physical limits. Definite boundaries, the commission declared, tend to reduce difficulties in quoting bills to prospective subscribers.

Service may be obtained in a considerable area beyond the base rate boundaries on multiparty rural lines without mileage charges at rates comparable with the exchange basic rates. In most instances, however, such rural service, according to the commission, is not satisfactory to other than regular rural subscribers. Multiparty rural service furnished by the company in the Madison and Milwaukee exchanges involves code ringing, each telephone on the line ringing the code of the called telephone on every other call made to stations on that particular line. This service was said to be acceptable in rural areas where the calling rate is low and calls confined mostly to daytime and early evening hours, and where the subscribers are well acquainted and have common interests; but in suburban areas the calling rate was said to be usually too high to be reasonably accommodated by multiparty rural service, and suburban subscribers do not readily accept the constant annoyance of code ringing for other telephones on the line.

### City Utilities Bill Passed

**M**UNICIPAL utilities would be permitted to compete with privately owned utilities without having to prove the convenience or necessity for the competition under a bill passed by the assembly recently.

Under the measure, a municipality might after a referendum approval enter in competition with private utilities in supplying gas, heat, water, or power without obtaining commission approval after a hearing on the necessity of the move. Commission power would be limited to making a survey and report to guide voters at the referendum, the bill provides.

A reduction in electric rates of the Hartford municipal utility, effective after the next meter readings, was ordered recently by the public service commission.

## Wyoming

### Casper-Alcova Grant Approved

**T**HE allotment board of the Public Works Administration recently approved an al-

location of 10 million dollars for the Casper-Alcova project in Wyoming, according to a statement published in the *Nebraska State Journal*.

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# The Latest Utility Rulings

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## Supreme Court Refuses to Rule on Differences of Opinion As to Navigability of River

A BILL of complaint in an original suit in equity by the United States for an injunction against the state of West Virginia, the Union Carbide & Carbon Corporation, the Electro Metallurgical Company, and New-Kanawha Power Company, involving the question of the navigability of the New and Kanawha rivers, has been dismissed by the United States Supreme Court.

The United States contended that these rivers throughout West Virginia constitute a continuous stream susceptible of navigation, and among other things that the power company had obtained from the public service commission of West Virginia a permit to construct a dam for power purposes. Construction of the dam was begun by the Electro Metallurgical Company as the transferee of the permit. This was alleged to be in violation of the Federal Water Power Act, since Federal consent and a license from the Federal Power Commission had not been obtained.

The bill of complaint, it was ruled, did not present a case or controversy between the United States and the state of West Virginia within the judicial power. The only right or interest asserted in behalf of the United States was its authority under the Constitution to control navigable rivers, and particularly the right to exercise that authority through the Federal Power Commission.

No act or threat of interference by the state with the navigable capacity of

the rivers or with the exercise of the authority claimed by the United States was alleged. The complaint alleged only that the state had assented to the construction of the dam by its formal permit.

The court assumed, for present purposes, that the United States had a sufficient interest in the maintenance of its control over navigable waters and in the enforcement of the Federal Water Power Act to enable it to maintain a suit in equity to restrain threatened unlawful invasions of its authority, and that a cause of action within the jurisdiction of a Federal court was stated against the corporate defendants, but there was not presented, as respects the state, a case of actual or threatened interference with the authority of the United States. Mr. Justice Stone, delivering the opinion, said:

At most, the bill states a difference of opinion between the officials of the two governments, whether the rivers are navigable and, consequently, whether there is power and authority in the Federal government to control their navigation, and particularly to prevent or control the construction of the Hawks Nest dam, and hence whether a license of the Federal Power Commission is prerequisite to its construction. There is no support for the contention that the judicial power extends to the adjudication of such differences of opinion. Only when they become the subject of controversy in the constitutional sense are they susceptible of judicial determination.

*United States of America v. West Virginia et al. (No. 17) 55 S. Ct. 789.*



## Idle Property Eliminated from Rate Base

THE supreme court of Missouri has sustained a commission order reducing telephone rates as against objec-

tions by the company relating to property valuation, depreciation allowance, and Federal income tax. Most of the

## THE LATEST UTILITY RULINGS

objections were overruled on the ground that the company, which had the burden of proof, failed to show arbitrary or unreasonable action by the regulatory commission.

One point stressed by the company was that the commission had refused to include in the materials and supplies account some 200 telephone instruments which had been taken out of service because of loss of subscribers during the depression. Twenty-six unused telephones of this number were allowed as a reasonable surplus on hand to meet future demands. The court said:

This number is comparable to the surplus which the evidence shows was normally carried. There appears to be no substantial

evidence as to when, if ever, the other required phones will be called into service. Indeed, affidavits filed by the company in connection with its motion for a rehearing before the commission indicate a further falling off in revenues.

With respect to the contention that the commission had improperly refused to allow the inclusion of Federal income taxes as operating expenses, the court said that the undisputed evidence was that the company did not pay income taxes, and the court was "not aware of any authority holding that in such case an allowance of this kind should be made." *State ex rel. United Telephone Co. v. Public Service Commission et al.* 81 S. W. (2d) 628.



## Commission Bans Useless Rate Quiz

IT would be entirely inequitable if a small group of customers complaining against rates could impose the burden of a rate investigation upon all the others in the absence of a reasonable anticipation that a full investigation would result in a substantial reduction in rates. For this reason the Connecticut commission refused to proceed on a rate complaint against the Hartford Electric Light Company.

A comparison of rates of different companies does not generally permit of any definite conclusions, said the commission, but a study of comparative rates is of importance in considering whether there is justification for entering upon a full investigation of the company's capital structure, income, and expenses. The record disclosed that there had been successive reductions in both domestic and commercial rates voluntarily made by the company, and the company's rates were as low or lower than similar rates of other companies within the state. The commission referred to the studies of the Federal Power Commission and the Edison Electric Institute, which disclosed that the average rates of the company were also among the lowest in the United States.

The distinction between a fair return and dividends was noted. The complainants alleged that the rates were shown to be excessive and unreasonable because of the amount earned by the company and the rate of dividends paid to the stockholders, but the commission said:

Upon a full rate hearing the ratio of a company's earnings to the value of its property is an important factor in deciding whether a rate schedule is reasonable. On the other hand the dividend rate is not of controlling importance as it depends upon the amount of the outstanding capital, which has no necessary relation to property values, and the amount of the dividend distribution as a result of utility operation is limited to such balance as may remain from a fair return upon the value of its property after charges have been satisfied.

The record, in the opinion of the commission, did not disclose discrimination, although small commercial customers must pay an amount which would produce an average cost per kilowatt hour greater than rates to domestic customers. There was said to be a legitimate margin within which management may use its judgment based either upon business policy or upon varying plant conditions affecting cost. It was shown that the cost of serving small commercial

## PUBLIC UTILITIES FORTNIGHTLY

users was very much higher than that of serving domestic customers using approximately equal quantities, and this, it

was held, justified different rates. *Starquist v. Hartford Electric Light Co.* (Docket No. 6114).



### Uniform System of Accounts Adopted for New York Municipal Electric Utilities

THE New York commission has approved a Uniform System of Accounts for municipal electric utilities after ruling on objections made by the municipal utilities against certain accounting requirements. Some objections and suggestions were approved while several others were rejected.

The municipalities objected chiefly to the detailed and intricate bookkeeping which would be required in order to comply with certain provisions. They asserted that they did not have expert engineering and accounting assistants and that the "type of their bookkeeping and clerical employees was not up to the level of those in the employ of private utilities."

The basic principles of the system of accounts for electric corporations, except for some concessions to the smaller municipal electric utilities, are retained in so far as they are applicable to publicly owned electric plants, with the same provisions in connection with continuing property records, original cost, and the accounting for depreciation.

Original cost is defined by the commission as the actual money cost (or the current money value of any consideration other than money) of property at the time when it was first devoted to the public service, whether by the accounting utility or a predecessor public utility.

The municipalities desired to change this to provide that original cost means the actual money cost (or the current money value of any consideration other than money) of property at the time when it was first acquired by the accounting municipal utility.

The commission rejected this suggested change. It was said that the reasons for recording property on the basis of original cost, as so defined, are as valid in the case of municipally owned plants as in privately owned plants. Further, if a different basis for accounting is used comparability of operating results and rates with private utilities is destroyed. *Re Uniform System of Accounts for Municipal Electric Utilities* (Case No. 8312).



### Court Cannot Declare Rates Excessive and Award Refunds

THE supreme court of Kansas has ruled that the court cannot order a refund of a portion of payments made by an electric customer to a municipality for service on the ground that rates were excessive. Rate making, the court observed, is a function of the commission rather than the courts.

The rates had been established by municipal ordinance, and in various years reductions had been made. The customer, claiming that rates were excessive, in 1931 sued to enjoin the city

from cutting off its current for non-payment of bills. A demurrer by the city was sustained in that case. After the cause was remanded for further proceedings a new cause of action was added, based on the contention that the customer should recover for the difference between the rates charged and rates deemed reasonable. A judgment in the lower court for the customer was reversed and the proceeding dismissed. *Holton Creamery Co. v. Brown et al.* 44 P. (2d) 262.



## THE LATEST UTILITY RULINGS

### Utility Not to Avoid Franchise Burden before It Is Ended by Commission

THE supreme court of Montana has sustained the claim of a city for payments, under a franchise provision, of a percentage of the utility's gross income for a period prior to a commission order relieving the utility of such payments.

The franchise ordinance had been accepted and acted upon by the company. The expense of payments under the franchise clause was included in the utility rates filed with the commission. The commission in 1932 relieved the utility

from further payments, but the company sought also to avoid the payments due in 1930 and 1931, before the entry of this order.

The court held that the requirement of a payment of gross receipts was not a tax on income, but was a contractual arrangement for a payment in the nature of rental or compensation for the use of streets, and that it was valid at least until the commission acted to cancel it. *Baker v. Montana Petroleum Co.* 44 P. (2d) 735.



### Contract for Street Railway Power Held Not to Be Abrogated

SEVERAL years ago the United Railways & Electric Company of Baltimore contracted with the Consolidated Gas, Electric Light & Power Company for power, which was to be charged for in accordance with rather complicated standards provided by the contract. Pending determination of proper rates, tentative rates were to go into effect. Negotiations and settlements for past bills covered some period of time and then, when the railway went into the hands of receivers, the Federal district court fixed a rate, based on the theory of *quantum meruit*.

The court decided that the rate provisions of the contract had been abrogated by mutual consent and the court went about the matter of rate fixing on the theory that the electric company should recover the worth of the service [4 P.U.R.(N.S.) 142]. The Federal Circuit Court of Appeals has now reversed this decision, holding that the contract is still in effect and that the lower court should fix the amount to be paid to the electric company on the basis of the contract. *Consolidated Gas Electric Light & Power Co. v. United Railways & Electric Co.* (76 F. (2d) 535).



### Other Important Rulings

DISTRICT Judge Frank McDonough has upheld the order of the Colorado commission requiring the Home Gas & Electric Company to make a reduction of approximately 12 per cent in electric rates charged in Greeley, Colo. On only one point, said the judge, was there any doubt as to the order and that was as to whether the 6 per cent return was just and reasonable. But he pointed out that the law provided that findings and conclusions of the commission on disputed questions of fact are final and the court was bound

by this part of the law. *Home Gas & Electric Co. v. Colorado Public Utilities Commission*.

The New Jersey Board of Public Utility Commissioners upon finding that a water utility, authorized to recoup for a deficit and for rate case expenses by means of a surcharge, had continued the surcharge after such sums had been recouped ordered repayment of the excessive amounts collected. The board also held that under Chap. 48 of the Laws of 1935 it had authority to or-